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REPORT OF THE EXPERT MEETING ON ELECTRONIC COMMERCE AND TOURISM

Held at the Palais des Nations, Geneva,
from 18 to 20 September 2000

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I. RECOMMENDATIONS [1]

1. Individual experts expressed their views on policies and strategies to be adopted by developing countries in order to increase their participation in electronic commerce in tourism and on the possible role of UNCTAD and other international organizations in realizing the development benefits of those policies and strategies. The following is a summary of recommendations made by various experts. Not all the views were necessarily shared by all the experts; consequently, the summary reflects a wide diversity of views.

A. Recommendations to Governments and enterprises

2. Solutions for e-commerce in tourism should also address broader issues of electronic commerce in general, and their effects and benefits for development.

3. Ensure that e-tourism is considered alongside an appropriate multisectoral strategy for improved Internet access and telecommunications infrastructure, and use this strategy to influence investment in telecommunications.

4. Liberalize telecommunications and Internet services in order to attract new investment, reduce prices and improve the quality of service.

5. Create and continually update local content on the Internet in local languages and languages of the most important tourism consumers in order to provide information and databases on tourism experiences and attractions and general information about destinations.

6. Review available research, and conduct additional research when necessary, on e-commerce in tourism in order to provide information on market trends, consumer needs, website use, demographic profiles and the impact of non-availability of on-line payments and other information that may support the development of a sustainable tourism industry.

7. Implement appropriate mechanisms in developing countries for the safer use of electronic payments in tourism transactions at the local, regional and global levels.

8. Promote tourism that is sustainable in a social, cultural, environmental and economic sense. To this end, develop partnerships and links among all parties in the tourism supply chain, including government, destination management organizations (DMOs), local tourism service providers, travel agents and other intermediaries, global distribution systems (GDSs), travel portals and the information and communication technology (ICT) sector, as well as the local community and foreign suppliers.

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[1] As adopted by the Expert Meeting at its closing plenary meeting on 20 September 2000.

9. Integrate new e-tourism channels into traditional and non-traditional distribution channels and foster the development of special-interest tourism websites, for example for eco-tourism and cultural tourism. These channels could be supported by the development of a common product database to share development costs and provide impartial information.

10. Develop a national vision, plans and policy guidelines on e-tourism and involve industry players and local communities in developing tourism strategies and products within the context of overall tourism marketing and development strategies.

11. Establish appropriate laws and regulations and service standards in order to build trust and consumer confidence and to ensure privacy and the protection of consumers and intellectual property rights. Also, cooperate in setting up an international framework to protect travellers conducting transactions on the Internet.

12. Call upon Governments to make joint efforts to ascertain whether the international e-tourism market is working in a way that does not promote unfair or anti-competitive practices which constitute barriers to the tourist industry for developing countries.

13. DMOs at all levels should be strengthened in order to be in a better position to coordinate the relevant public and private actors and thus be enabled to play a broader role. They will be essential for positioning developing countries to be able to take advantage of new ICTs. In order to be effective, DMOs have to be representative of relevant stakeholders at the local level, institutionally established and provided with the necessary human, financial and logistical resources. Ultimately, this could allow developing countries to benefit from vertical cooperation and integration.

14. With respect to e-commerce, DMOs should play a broader role. They should promote destination markets in key tourism portals, search engines and gateways and also list destinations under as many links as possible so that descriptors are not limited to, for example, tourism or names of the country alone.

15. Build and enhance destination brand image in order to improve consumer awareness and confidence, and reflect this in any web strategy.

16. Develop capacity building through training and basic education in relevant fields, for example informatics and telecommunications, and conduct awareness campaigns about e-tourism.

17. Governments and donor agencies should stimulate activities in e-commerce through grants, tax incentives, special credit lines and other seed funding arrangements, and empower DMOs with technology and financial resources.

18. On-line transactions must be combined with the development of physical tourist attractions, satisfactory product fulfilment and supply of support services, such as banking,

insurance, transport and customs. Since not all suppliers will be ready for on-line transactions, destination strategy should include off-line transactions support, local call centres and use of local knowledge.

19. Traditional travel agents and other intermediaries should transform themselves by adopting new information technologies and enhancing their expertise and creativity, so as to improve their efficiency and ensure their continuity.

B. Recommendations to UNCTAD

In cooperation with other appropriate bodies UNCTAD should:

20. Analyse the effect that tourism-related e-commerce has had or will have on development, and development policies. The objectives of this analysis should include identification of positive, negative or indifferent effects, as well as their causes, and formulation of recommendations for maximizing the development benefits of e-commerce.

21. Disseminate information to developing countries on approaches and elements of government policies on e-tourism, taking into account successful experiences in the developing and developed countries.

22. Give priority attention and support to the development of sustainable e-tourism in developing countries.

23. Stimulate exchanges of experiences among Governments and tourism enterprises of developing countries on the one hand, and Governments and enterprises of other countries on the other hand, and disseminate to developing countries information on experiences in e-tourism through website and periodic publications, inter-organizational cooperation, etc.

24. Signpost and carry out case studies and analysis of e-commerce in tourism, including problems of on-line payments, trust-building issues such as encryption and electronic certificates or signatures, and new technologies such as interactive television and cellphones that can support e-commerce; and collaborate with tourism research centres and academic institutions in order to promote capacity building and knowledge in e-tourism in developing countries.

25. Encourage the adoption of open data standards, e-signatures and new Internet developments (e.g. new top-level domains such as .geo) where these would assist in opening up the e-tourism market place, taking into account in particular the development dimensions of the sector; and ensure that e-commerce serves equitably the needs of developed and developing nations, and can contribute to social and environmental accountability within the tourism industry.

26. Promote exchanges on how to increase the effectiveness of DMOs.

27. Suggest possible arrangements for UNCTAD to act as an incubator for e-commerce and small and medium-sized e-tourism enterprises through appropriate United Nations programmes.

28. Examine ways to promote the visibility of tourism portals in developing countries and possible arrangements for the establishment of a global, central tourism portal for the benefit of developing countries.

29. Assist in the promotion of partnerships between DMOs in developing countries on the one hand, and intermediaries and origin country DMOs on the other hand, and encourage joint marketing within DMOs in developing countries.

30. Develop capacity building through training and basic education in relevant fields, for example informatics and telecommunications, and conduct awareness campaigns about e-tourism.

II. CHAIRPERSON'S SUMMARY OF THE EXPERTS' INFORMAL DISCUSSIONS

31. The tourism industry is in a very dynamic phase of development as more people will travel more frequently to more destinations, and will want more diverse travel experiences. Projections for 2003 indicate a 2½-fold increase in on-line bookings compared with the year 2000. For many developing countries tourism is a major source of revenue and hard currency, and a sector in which many enjoy a clear competitive advantage, which therefore provides tremendous opportunities for growth.

32. Against this background, the main theme of the discussions at the Expert Meeting was the opportunities afforded to the tourism sector by the new information technologies, as well as the inherent difficulties facing business operators. The informal discussions focused mainly on three topics: the experience of tourism operators that use the Internet in developing countries; the role of destination marketing organizations; and information and communication technology. Under each topic, strategic options for developing countries were set out and discussed by the experts.

33. The first topic was illustrated by several companies that presented their e-business strategies. Tourism companies use the Internet in a variety of ways. In particular, some operate as traditional high-street travel agencies and generate additional sales via their websites. Others are purely virtual tourism portals, and function as a new breed of travel company, targeting not only the final consumer but also service providers and travel agents. Typically, these companies provide a wide range of services, including helping consumers to find the best price for tourism products by maintaining a large on-line catalogue; securing on-line reservations and sales on behalf of service providers; and powering the websites of travel agents.

34. The main obstacles encountered by these companies were identified. First and foremost, the cost of technology and the Internet connection was still very high, especially in countries where the State Telecom had a monopoly. Consequently, travel agents expressed regret that only a minority of the service providers and consumers in their countries were able to access the Internet, which made it all the more difficult for them to maximize the benefits of their e-business strategy. It was hard to convince businesses of the usefulness of adopting the Internet and Intranet as a business medium at present costs.

35. In addition, the costs of maintaining the websites were high, particularly in view of the need to continuously update the information, to keep up with the fast-changing technology, to attain a high level of visual appeal through an attractive graphics environment and to manage replies to e-mail queries. Marketing the website was also difficult, as it required registering with an ever-increasing number of search engines and correct positioning towards tourism portals in order to acquire traffic.

36. Another important obstacle was that, in many countries, there were no means of on-line payment under local regulations. In these countries, e-businesses either bypass the local banking system or move their on-line services to countries where such payment is possible. Consequently, tourism revenues are not necessarily channelled in full to the destination market. Developing countries were thus encouraged to adopt on-line payment techniques and supporting legislation.

37. Some of the experts expressed regret at the lack or the inefficiency of a Tourism Board that could market a country as a tourist destination.

38. The key factors for success and lessons learned by enterprises were identified. First, it was important to choose scalable technology, to be able to publish local content and to target the right audience through the most appropriate technological means. One of the experts presented his company business model, which was based on the simultaneous utilization of different technologies: the Internet and e-mail messaging were complemented by a cable television channel, wireless communication (WAP) and the Short Messaging System (SMS).

39. Another key factor for success was ownership of the inventory, i.e. the pre-buying of hotel rooms and other tourism services. This made it possible to have large discounts and quality control. Most important of all was investing in human capital, which required extensive technical training and also capacity-building in the wider sense.

40. The second topic discussed was the role of destination marketing organizations (DMOs). DMOs, as organizations dedicated to a specific destination, are inherently different from tourism intermediaries without a dedicated destination focus and thus have a well-defined role to play. The experts agreed that DMOs' traditional area of competence was the promotion of their destination by developing public relations activities, building credibility and trust among consumers, and serving as an on-line tourism information centre.

41. The experts stressed that currently only a small percentage of tourism revenues estimated to be as low as 30 per cent in some cases actually remained in the hands of service providers in developing countries. One of the experts subsequently qualified this figure by observing that much of the remaining 70 per cent was made up of international travel costs. Developing countries were unlikely to be able to retain these, unless they operated international flights. Whatever the case, the experts agreed that DMOs and service providers in developing countries could use the Internet to increase their share of tourism revenues by cutting out intermediaries that did not necessarily add value to the product. This meant enhancing the long-term profitability of private sector operators by strengthening their bargaining power vis-à-vis large tourism operators. In turn, increased revenue retention would allow DMOs not only to act as an operational tool for information and reservation but also to "manage" their destinations. This required a long-term understanding and careful management of the social, cultural and environmental impact of tourism.

42. In this connection, DMOs should act as catalysts in developing a partnership among all parties in the tourism supply chain – including the Government, local tourism service providers, travel agents and other intermediaries, global distribution systems (GDSs), travel portals and the information and communication technology (ICT) sector, as well as the local community and foreign suppliers – with the common goal of increasing revenue retention and preserving the long-term quality of the destination.

43. With the advent of the Internet, the idea of a partnership becomes all the more important in view of the need to avoid excessive fragmentation of information across too many websites. DMOs could play an important role in this respect by developing consistency across e-commerce platforms used by tourism producers and by establishing good links with key tourism portals, search engines and gateways.

44. The experts stressed that there were many sorts of DMOs. In particular, these organizations could be governmental, semi-private or private: there could be no single strategy for all DMOs, and it was necessary to explore as many alternatives as possible. Depending on local conditions, they could – in addition to providing information on their destination – deliver e-services directly, i.e. making on-line secure reservations for local service providers. Finally, a potential role for them was to promote awareness of technical developments relevant for e-tourism service providers; provide training for their affiliates and negotiate with banks and financial operators in order to reduce banking costs for on-line payments. In collaboration with the private sector, DMOs could also develop special-interest tourism, for example eco-tourism and cultural tourism, that could be particularly well suited for marketing on the Web.

45. The DMOs present at the Meeting deplored the high cost of Internet connections, the difficulty of access from large parts of their countries and the lack of an "Internet culture" among tourism service providers. Furthermore, they stressed that in addition to endeavouring to increase their presence on the Web, it would be crucial for developing countries to develop physical tourist attractions and support services, such as banking, insurance, transport and customs.

46. In order to be effective, DMOs needed to be institutionally established and provided with the necessary human, financial and logistical resources. Ultimately, this would require capacity-building for them in terms not only of technical training but also of provision of the necessary technical and financial resources. In view of the modest budgets available for tourism promotion, various solutions could be tried, including the development of regional or subregional portals, at least partially financed by commissions on actual sales. International cooperation by specialized agencies, such as the World Tourism Organization and UNCTAD, would also be needed. Training and capacity-building were viewed as essential, and could be jointly developed and administered by UNCTAD, the World Tourism Organization and specialized training institutions. UNCTAD could also contribute to the development of an international web portal for DMOs, so as to increase their visibility on the Internet.

47. The third topic discussed was information and communication technology and how it can enable e-commerce in the tourism sector. Adequate and up-to-date information and communication technology provides the basic infrastructure for electronic commerce in tourism. Travel technology intermediaries could provide e-connectivity solutions and thereby allow tourism and travel companies to concentrate on core business rather than technology. For instance, it was possible for a tourism producer such as a rent-a-car company or hotel to transmit its capacity to a very wide variety of distribution channels through a single Internet connection. According to some experts, the lack of a terrestrial network could cease to be a problem with the advent of the wireless Internet and low earth-orbiting satellites, and developing countries could then successfully leapfrog into e-commerce. According to other experts, the new technologies could constitute a further obstacle for developing countries, and cooperation was necessary among Governments, businesses and citizens for a successful e-tourism strategy.

48. In addition, the experts discussed the possible consequences for the tourism industry of new technological developments, such as the proposed new top-level domain name ".geo".

49. As regards the strategic options for developing countries, one possible option to overcome the problems of access that were common to many developing countries was Internet kiosks and Multipurpose Community Telecentres (MCTs), which could increase public access to the Internet. MCTs are varied in that they may target different audiences (the elderly, children, young adults, entrepreneurs etc.), and they could be established by a partnership of government, the private sector, non-governmental organizations and international organizations.

50. Also discussed were anti-competitive practices in the tourism industry. These include the selective presentation of seating and room availability in GDSs, high charges for access to computer reservation systems, entry barriers for new competitors on key routes, mergers of tour operators, predatory pricing and exclusivity clauses in contracts for hotel rooms. An Expert Meeting held in UNCTAD in 1998 recommended *inter alia* the adoption of a Tourism Annex to the GATS, which would set out new regulatory disciplines applicable to tourism services. This would be essential for promoting fair competition and for the sustainable development of the tourism industry.

51. A number of experts suggested, among others, the following points for action by UNCTAD:

- Developing analysis of concrete benefits for developing countries provided by e-tourism and promoting awareness of ICT in developing countries;

- Broadening the understanding of policy actions required in the context of the tourism industry and for the adoption of a general policy to foster e-commerce readiness in developing countries;

- Preparing a training package for travel operators from developing countries to enable them to migrate from traditional business to e-business, in cooperation with training institutions and other international organizations;

- Supporting DMOs from developing countries in becoming better able to manage their respective destinations on a long-term basis, by encouraging exchanges of experiences among DMOs from various regions;

- Promoting the visibility of tourism portals in developing countries, possibly by establishing a global, central tourism portal for the benefit of developing countries;

- Convening an Expert Meeting on e-payments and the security of transactions over the Internet, especially as these relate to electronic signatures;

- Exploring ways and means for UNCTAD to act as an incubator for e-commerce and small and medium-sized e-tourism enterprises.

III. ORGANIZATIONAL MATTERS

A. Convening of the Expert Meeting

52. In accordance with the decision of the Trade and Development Board at its twenty-fourth session, on 12 May 2000,[2] the Expert Meeting on Electronic Commerce and Tourism was held at the Palais des Nations, Geneva, from 18 to 20 September 2000. The meeting was opened on 18 September 2000 by Mr. Jean Gurunlian, Director of the Division for Services Infrastructure for Development and Trade Efficiency.

B. Election of officers

(Agenda item 1)

53. At its opening meeting, the Expert Meeting elected the following officers to serve on its Bureau:

Chairperson:	Mr. Virasakdi Futrakul (Thailand)
Vice-Chairperson-cum-Rapporteur:	Mr. Patrick Pardo (Switzerland)

C. Adoption of the agenda

(Agenda item 2)

54. At the same meeting, the Expert Meeting adopted the provisional agenda circulated in TD/B/COM.3/EM.9/1/Rev.1. Accordingly, the agenda for the Meeting was as follows:

1. Election of officers
2. Adoption of the agenda
3. Electronic commerce and tourism
4. Adoption of the outcome of the meeting

D. Documentation

55. *For its consideration of the substantive agenda item (item 3), the Expert Meeting had* before it a report by the UNCTAD secretariat entitled "Electronic commerce and tourism: new perspectives and challenges for developing countries" (TD/B/COM.3/EM.9/2).

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[2] See Report of the Trade and Development Board on its twenty-fourth session (TD/B/EX(24)/3), paragraph 46 and annex III.

E. Adoption of the outcome of the Meeting

(Agenda item 4)

56. At its closing meeting, on 20 September 2000, the Expert Meeting authorized the Rapporteur to prepare the final report of the Meeting, under the authority of the Chairperson, to include the recommendations adopted by the Meeting (see chapter I) and the Chairperson's summary of the experts' informal discussions (see chapter II). It also decided to include, as annex I, a text entitled "Suggestions by the Latin American countries".

Annex I

SUGGESTIONS BY THE LATIN AMERICAN COUNTRIES

The Latin American countries present at the Expert Meeting on Electronic Commerce and Tourism – Brazil, Chile, Colombia, Ecuador, Mexico, Panama, Peru, Uruguay and Venezuela -- submit the following recommendations for inclusion among the Meeting's conclusions:

1. Our view is that globalization must contribute to sustainable economic growth and sustained development. International cooperation must therefore be directed at efficiently supporting local and regional efforts.

2. The participation of developing countries should be facilitated and increased in the promotion of the tourism image of individual regions or countries and in the marketing of tourism products and services.

3. The major, competitive participation of developing countries should be facilitated by electronic marketing, contributing to the social development of their economies.

4. The following suggestions may also be adopted by other regions of the world in similar geographical, ethnographic, cultural and environmental situations:

   (a) We suggest that multilateral organizations such as UNCTAD and WTO should stimulate technological, financial and academic transfers to developing countries so as to ensure that small- and medium-sized enterprises, which are the most numerous in our economies, may benefit from the opportunities offered by this new economic order;

   (b) We suggest that those multilateral organizations and others with similar aims should convince and invite our countries' Governments to recognize the importance of these developments and should give priority to, and set aside in their official policies, the budgetary and logistic means required to implement these solutions;

   (c) We request those organizations (UNCTAD, WTO and others) to provide the necessary technical, logistic and academic support to implement a South American Internet portal, such as to convey the wealth of natural resources with which we have been endowed, our culture, our historical and architectural heritage, and our natural attractions and modern achievements, as a basis for the development of alternative tourism, which is the subject of growing demand by countries with stronger economies;

(d) In our turn we undertake to develop sustainable and sustained tourism based on the principles of quality, service, security and sound management.

Annex II

ATTENDANCE *

1. Experts from the following States members of UNCTAD were represented at the Meeting:

Albania
Angola
Armenia
Austria
Bahamas
Barbados
Benin
Bolivia
Brazil
Burkina Faso
Cameroon
Chile
China
Colombia
Congo
Costa Rica
Côte d'Ivoire
Cuba
Cyprus
Democratic People's Republic of Korea
Dominican Republic
Ecuador
El Salvador
Ethiopia
Finland
France
Germany
Ghana
Greece
Guatemala
Guinea
Guinea-Bissau
Haiti
Iran (Islamic Republic of)
Israel
Italy
Jamaica
Japan
Jordan
Kenya
Latvia
Lebanon
Madagascar
Malawi
Malaysia
Mauritius
Mexico
Morocco
Myanmar
Netherlands
Niger
Oman
Panama
Peru
Philippines
Qatar
Romania
Russian Federation
Saint Lucia
Samoa
Sao Tome and Principe
Saudi Arabia
Senegal

* For the list of participants, see TD/B/COM.2/EM.7/INF.1

Slovakia
Slovenia
Spain
Sudan
Sweden
Switzerland
Thailand
Togo
Trinidad and Tobago
Turkey
United Kingdom of Great Britain and Northern Ireland
United Republic of Tanzania
Uruguay
Vanuatu
Venezuela
Yemen
Zambia

2. Palestine attended the Meeting as an observer.

3. The following intergovernmental organizations were represented at the Meeting:

Association of African Trade Promotion Organizations
Arab Labour Organization
League of Arab States
Organization of the Islamic Conference
World Tourism Organization

4. The following specialized agencies and related organization were represented at the Meeting:

International Labour Organization
United Nations Industrial Development Organization
World Trade Organization

5. The following non-governmental organizations were represented at the session:

General Category

International Confederation of Free Trade Unions
World Federation of United Nations Associations
World Wide Fund for Nature International
World Vision International

Specially Invited

Association of European Travel Agents

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Geneva, 22 - 26 January 2001

REPORT OF THE EXPERT MEETING ON THE RELATIONSHIPS BETWEEN SMEs AND TNCs TO ENSURE THE COMPETITIVENESS OF SMEs

Held at the Palais des Nations, Geneva,
from 27 to 29 November 2000

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Attendance 20

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I. OUTCOME OF THE EXPERT MEETING

1. The Expert Meeting on the Relationships between SMEs and TNCs to Ensure the Competitiveness of SMEs, held from 27 to 29 November 2000 in Geneva, involved some 65 experts from developing and developed countries, as well as from countries with economies in transition. Representatives from several TNCs, entrepreneurs from small and medium-sized enterprises, and officials from SME support agencies and international bodies, such as ECE, UNIDO, EBRD and the Commonwealth Secretariat, also participated in the meeting. Nineteen experts made formal presentations during the event and more than 30 experts submitted papers to the Meeting.

2. The Expert Meeting is part of UNCTAD's analytical work and technical assistance activities aimed at both strengthening the developmental impact of foreign direct investment (FDI) and promoting SME development through linkages with TNCs. It was preceded by the Round Table on TNC–SME Linkages for Development, held during UNCTAD X in Bangkok in February 2000, and the subsequent International Workshop on Technological and Managerial Upgrading of Small and Medium-sized Enterprises through Linkages with Transnational Corporations, organized jointly by UNCTAD and Intel Malaysia in August 2000 in Penang, Malaysia.

3. Building on the findings of the Penang Workshop, the Experts continued the discussion of policies and measures to forge linkages between TNCs & SMEs. They considered the role of government, the requirements of TNCs, and the contribution of international organizations in promoting linkages. They noted the important role of government in creating an enabling business environment, including the legal and regulatory framework, as well as the physical and educational infrastructure. It is also important for government to create the right conditions for SMEs so that they can meet the requirements of TNCs. TNCs can help SMEs to cope with the challenges of globalization by facilitating access to markets, technology, skills and finance. SMEs, to enter such linkages, need stability of vision and management. International organizations can assist this process by supporting programmes that are demand-driven and institution-building. The Experts underlined that, since everyone has a role to play in this process, linkages could benefit from various types of public-private partnerships.

4. The Experts discussed how globalization has changed the nature of transnational corporations' production and outsourcing networks, thereby promoting existing and future TNC-SME linkages; and how TNCs need such linkages with SMEs in order to implement their global strategies, which depend on flexibility, total cost and speed. A number of examples were given of the positive impact that TNC-SME linkages can have on national growth and development. In these examples TNCs acted as anchor companies or agents of change, and assisted local enterprises in technological and managerial upgrading.

5. However, some experts mentioned that many SMEs miss opportunities for linkages with TNCs because they cannot meet corporate and international standards for production in terms of price, quality, delivery, health, labour and the environment. In particular, SMEs in some regions such as Africa and Latin America function in an environment which is not favourable to entrepreneurship and often do not have the support services they require to be partnership-ready. It was also recognized that SMEs must have a vision of their own evolution and be prepared to transform in line with new opportunities in order to benefit from linkage initiatives.

6. Regarding the specific role of government, the experts discussed the possibility of targeting investors who could have a positive developmental impact on the local economy; and who have a corporate vision and mission to promote such impacts. Government can also actively encourage TNCs to make such a contribution, but such TNC initiatives should be voluntary and not externally imposed.

7. Moreover, government can act as a catalyst for linkages by providing a continuously improving physical and educational infrastructure, particularly for the development of engineering and management skills, and by easing administrative burdens on TNCs and especially on SMEs. Government, working together with the private sector, can create support institutions (e.g. skill training centres) that can facilitate transfer of technology and continuously upgrade education, thereby helping SMEs achieve the capability for continuous improvement. There is a need for government to consider measures to assist SMEs to invest in themselves, particularly in appropriate technology and R&D.

A. Contribution of TNCs

8. The Experts recognized the contribution that TNCs can make to the local economy by working with small and medium-sized companies for their managerial and technological upgrading. Public-private partnerships can, *inter alia*, create support institutions for which TNCs and local business share the responsibility and leadership. TNCs have benefited enormously from deregulation, privatization, trade and investment liberalization and in return should demonstrate their corporate social responsibility.

9. The experts identified a number of best practices of TNCs for the promotion of linkages, including:

- Mentoring programmes for SMEs to coach them in total quality management and continuous improvement;
- Providing SMEs with access to TNC innovation centres and corporate training programmes;
- Making available engineers and management consultants;
- Assigning staff temporarily to SMEs;
- Having regular consultations to assess progress.

10. The experts also recognized the importance of TNCs in:

- Sharing with SMEs relevant information not related to core competencies, such as market trends and future plans;
- Allowing SMEs to support operations outside the host country; and
- Providing them with additional business opportunities through business matching, brokering of strategic alliances, trade fairs, and road shows.

11. They appreciated the encouragement given by TNCs to their SME partners to diversify their customer base so as to avoid over-dependency on one linkage partner.

B. Role of the international community

12. While many international organizations have promoted SME development, few have actually worked in the area of TNC-SME linkages. Such programmes could make SMEs more partnership-ready and could have more of an impact if there were better coordination between donors and beneficiaries. The sustainability of SME support programmes could be improved by involving all the relevant stakeholders.

13. Experts suggested that the UNCTAD secretariat should:

- Put together a checklist of principles of best practices to strengthen competitiveness by promoting linkages for interested Governments, TNCS, SMEs and support institutions;
- Continue its research on the impact of foreign direct investment on industrialization, local entrepreneurship and the development of supplier conditions generally; and
- Engage in further study and intergovernmental discussions on topics (a) upon which there was no agreement, such as the impact of economic incentives and subsidies on TNC-SME linkages, and (b) where great interest was expressed, such as financial services and successful programmes for replicating TNC-SME linkages in regions which have not yet benefited from them.

II. CHAIRPERSON'S SUMMARY

14. A representative of UNCTAD's Technology Enterprise Branch gave a brief overview of UNCTAD's recent work in the context of TNC-SME partnerships, in particular the round table on TNC-SME linkages held in Bangkok in February 2000 and the follow-up workshop held in Penang, Malaysia, in August 2000. The latter encounter, sponsored by Intel, had brought together more than 250 representatives of TNCs, SMEs and meso-level institutions to share experiences on concrete ways to foster linkages, including through public-private sector partnerships.

15. She indicated that the development impact of TNCs had not yet been comprehensively studied and that more work needed to be done to identify the profile of a development-friendly TNC, what measures encouraged some TNCs to play an active role in the development of the host country, and what explained the concentration of successful linkages in certain regions such as Asia. Examples such as Unilever's involvement in Viet Nam, Fiat's operations in India or Intel's engagement in Malaysia might guide in the development of a practical action programme.

A. Role of government and meso institutions

16. The UNCTAD resource person introduced the issue of government policies and measures to promote development-friendly linkages by briefly outlining the importance of TNC-SME linkages for the host country, SMEs and TNCs. SMEs benefited from increased access to capital, management, technology, markets and new business opportunities, while TNCs maximized their performance by drawing upon a diversified network of highly specialized SMEs, as was the case in the OECD countries. A main conclusion was that TNCs needed SMEs, given the new demands of the global economy for flexible and rapid responses to changes in demand.

17. He alluded to the sometimes-problematic relationship between TNCs and SMEs in developing countries. Some local SMEs with limited production capacities tried to compete with TNCs in the same sector rather than concentrating on complementary or niche products. TNCs could be encouraged to work with SMEs. On soft-core issues like human resources, management or marketing, TNCs had already demonstrated their willingness to assist, and in some cases they were even willing to transfer non-core technology.

18. He suggested three types of government measures to enhance TNC-SME partnerships: firstly, measures to improve the performance of SMEs. There was no lack of demand for local products or services, but SMEs lacked the capacity to produce efficiently and deliver to required quality standards. SME policies should be selective and encourage a dynamic core group to develop its competitive advantage.

19. Secondly, measures to attract foreign direct investment should go beyond creating a positive image of the location and liberalizing investment rules. He emphasized the need for government to formulate a long-term national vision to target investment and TNCs which could have a positive developmental impact.

20. Thirdly, government should develop specific linkage policies that encouraged TNCs to create opportunities for outsourcing, franchising, technology partnerships (joint ventures) and spillovers to the local business community. The resource person noted that in formulating policies to foster linkages, emphasis should be placed on voluntary measures as opposed to mandatory measures.

21. A successful public-private sector partnership to foster TNC-SME linkages in Malaysia was presented by the Executive Director of the Penang Skills Development Centre (PSDC). The Malaysian Government, the private sector and academia had joined hands to respond to the increasing shortage of skilled human resources in Penang relative to the inflows of foreign and local investment in the late 1980s. The Government had embarked upon three policy objectives: firstly, to increase collaboration with the private sector, secondly, to improve incentives for training; and thirdly to establish specialized centres. This had led to the establishment of the PSDC. The Government had demonstrated its political will by providing incentives, infrastructure and a training fund. Industry had shared ideas and provided leadership, resources and experience. Academia had provided research and training.

22. The PSDC was the first industry-led institution of its kind in Malaysia to provide training in technical, management and manufacturing skills. One of its initiatives included the Global Supplier Programme, which was aimed at creating TNC-SME links. For SMEs to be included in the programme, they needed to demonstrate their willingness and readiness to transform. They also needed to take PSDC's courses on core competencies, after which they could be selected to enter a coaching arrangement with a TNC. The coaching arrangement often included various staff exchanges. For example, SME staff was given access to TNC innovation centres and corporate training programmes, while TNC engineers, management consultants and other staff were loaned to the SMEs.

23. He emphasized that in order for a meso-level institution to operate successfully its services had to be demand-driven. Industry needed to take a leading role in the running of the institution in order to ensure the proper identification of private sector training needs. In his experience TNCs were willing to contribute resources in areas of mutual interest. An added advantage for TNCs was to be able to demonstrate that they were good corporate citizens. To enter into a viable partnership with industry, institutions had to be business-like and cost-effective, have a leading edge, maintain a high profile, and create a "win-win-win" strategic alliance for all. More importantly, although Malaysia had used local content requirements to promote linkages, such methods had since given way to policies encouraging voluntary initiatives by TNCs.

24. The Vice-Chairman of the Expert Meeting presented the linkage programme of Enterprise Ireland. The objective of the Irish Government was to expand the Irish industrial base through increases in FDI and attract foreign companies that would source locally. It also sought to improve the competitiveness of the supply base by selecting and promoting SMEs so that they could respond to TNC needs.

25. Enterprise Ireland had undertaken a detailed analysis of the demands of TNCs and the ability of potential suppliers to meet those needs. Interventions included a technical audit, training and advisory services and the facilitation of linkage interaction. Constraints in forming linkages for TNCs included their risk aversion, corporate policy, lack of local autonomy, and restrictions on the share of inputs that could be purchased locally.

26. Another example of a successful enterprise development strategy concerned Mauritius, where the Government had recognized at an early stage that the private sector was an engine for economic growth. It had adopted a clear export-oriented strategy in which the main enterprise players were SMEs. The micro enterprise sector was given the opportunity to service local market needs.

27. During the discussion of the Irish, Malaysian and Mauritius cases, the experts compared the developmental impact of foreign direct investment in local production to production for export. One expert believed that some developing countries could not afford selective investment policies. These countries needed any investment they could attract. Another expert argued that investors who produced for local markets were more inclined to forge linkages with local suppliers. The demands by TNCs on local firms to produce for export markets were much higher. However, linkages established to produce for local markets were less durable and provided less incentive to the TNC to upgrade the local supplier.

28. Another presentation focused on the Sri Lanka Export Development Board strategy to foster TNC-SME linkages. The Director-General of the Board described the strategy of the Board which targeted SMEs as an integral part of the national development strategy. The strategy was focused outward and concentrated on niche markets. Enterprise development programmes enhanced SME managerial and production skills, modernized SME technology and enabled SMEs to enter into relationships with TNCs.

29. Since 1998, SMEs had been able to import new technologies duty free under the Advanced Technology Incentive Scheme (ATIS). A five-year tax exemption was also offered to investors providing 50 or more jobs. Priority had been accorded to information technology (IT) and electronic commerce. The Board had set up an IT hub and cyber trader facilities in the capital. A number of regional electronic commerce centres had also been established. These facilities provided up-to-date market and trade data and business promotion services, including business-to-business link-ups and web advertising services to SMEs unable to invest in IT-related equipment and services. Free web advertising for a period of six months was offered to those SMEs that were judged to be export-ready or potential winners.

30. Linkage programmes existed in a number of developing countries, and did not necessarily limit themselves to TNCs. For example, the Confederation of Zimbabwe Industries had started a programme with donor funding to foster linkages with "large" enterprises, the majority of which were TNCs. The programme had been successful if measured by employment created and revenues earned. To date the programme had helped catalyze 670 linkages valued at $10 million and it had created 6,500 jobs. However, when donor funding ceased, continuation of the programme would be in doubt. The programme followed the Irish model, with buyer open houses, identification of possible suppliers, and supplier-capacity audits. If SMEs needed to strengthen certain areas, capacity building was usually done through corporate mentoring.

31. Support for linkages could take various forms, e.g. the provision of infrastructure, training and economic incentives. The amount of government funding for support measures depended on policy objectives, particularly those set for industrial and private sector development. The experts were not able to agree on the precise degree of government intervention necessary to establish linkages. Most agreed that skills development, market information and matchmaking services were basic ingredients that Governments could provide. The general feeling was that private business development service providers could do a better job in meeting SME needs than government agencies.

B. The role of the private sector

32. Experts were invited to debate three points on the role of the private sector - particularly TNCs - in promoting industrial linkages.

33. Firstly, it had been agreed that SMEs with high motivation and a vision of continuous upgrading were more capable of linking-up with TNCs and meeting global production standards as required by international value chains. Experts were invited to discuss how SMEs could be helped to become partnership-ready and what kind of internal *versus* external resources should be mobilized in that respect, taking into consideration the diverse features of different sectors and subsectors of economic activity.

34. Secondly, it was observed that the motivation of TNCs to promote sustainable linkages depended on the corporate philosophy and on the specific outsourcing strategy of the TNCs. In certain cases TNCs had played a positive role in boosting local entrepreneurship and had established long-term linkages with local suppliers, often on a purely voluntary basis. Thus, experts were asked to identify under what conditions this had happened and discuss how far Governments and international agencies should go in encouraging TNCs to assume a mentoring role towards SMEs.

35. Thirdly, it was argued that public-private partnerships could be very effective in promoting TNC-SME linkages. In some cases these had developed spontaneously and without any regulatory intervention. In others, a publicly supported environment conducive to business linkages had played a key role in the linkage process. Therefore, experts were invited to discuss the newly developed public-private sector partnership models, and especially how these could facilitate SME access to vocational training or to other meso-level support measures.

C. Corporate supplier development programmes

36. According to the purchasing director of INTEL Malaysia, the objective of Intel's Supplier Development Programme was to create a network of local suppliers by nurturing existing and potential companies, thereby demonstrating the commitment of Intel to Malaysian suppliers. This was possible due to the existence of a very wide range of procurement needs which could be met locally, among which were operating activities, transport and packaging, equipment services, construction and infrastructure, manufacturing subcontracting, tooling and fabrication.

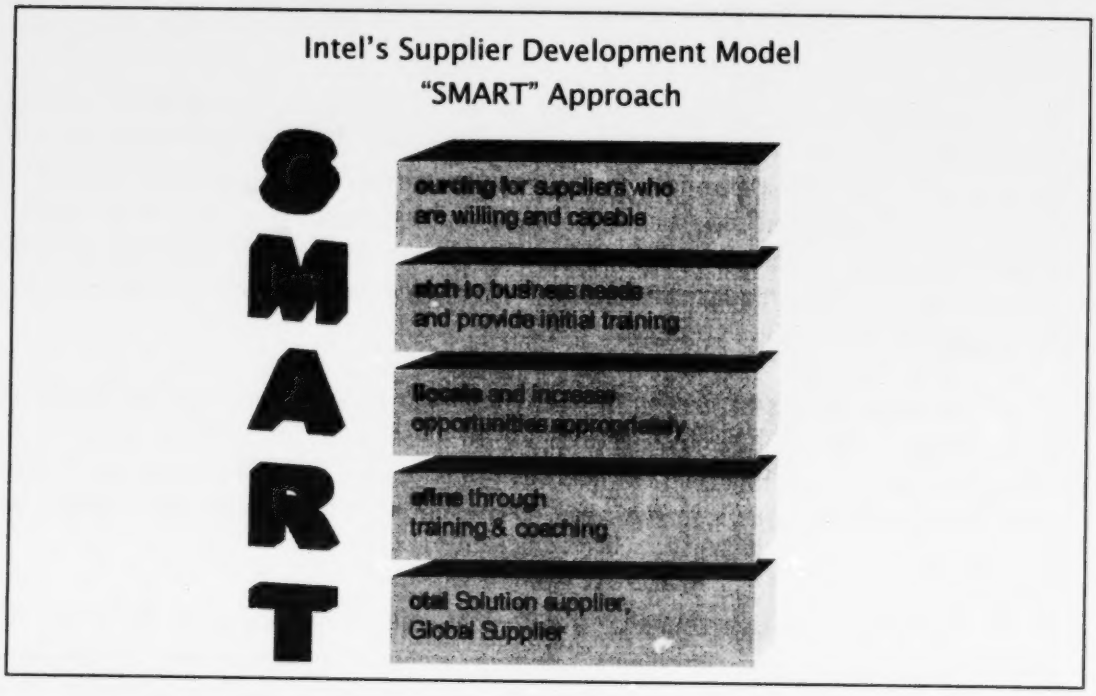
37. The ability of local suppliers to meet Intel Malaysia's requirements had reached 65 per cent due to this programme. The degree of localization of business suppliers had increased steadily since 1990 and reached one billion dollars in 1999. During the financial crisis, special cash flow arrangements had been made by Intel to avoid interruptions with local suppliers.

38. The complexity of technology transfers had also increased over the years. Intel Malaysia had decided since the beginning to share technical road maps with its suppliers in order to let them choose the right direction and position themselves correctly in the technological trajectory. In order to avoid dependence, local firms were helped to pursue strategic alliances with external suppliers. This had resulted in a successful alliance between United States and Malaysian suppliers for the fabrication of precision die molds, and between Japanese and Malaysian suppliers for the manufacture of ceramics.

39. The Director emphasized that the success of the relationships depended on selectivity and having a match between TNCs' needs and SMEs' capabilities. The different characteristics Intel looked for in a company when assessing a potential local supplier were:

- Vision of the CEO
- Willingness to learn and to transform
- Financial stability
- Quality of human resources
- Technical capability corresponding to Intel's needs
- Competitiveness potential (safety, quality, delivery, price).

40. At the beginning of the upgrading process the local company usually met only 10 per cent of these requirements, but eventually the supplier company was expected to meet all the standards. Over time it had to become competitive from a total cost perspective; it must be able to support Intel's global network and be responsive to sudden changes. It must increase the complexity of its operations. This was possible thanks to a supplier development model called SMART, where Intel selected SMEs which had the potential to meet Intel's needs, and nurtured them by providing opportunities, training and coaching.



41. Since the nurturing phase was the most critical one, in order to succeed, INTEL Malaysia directed its efforts in three complementary directions: first, it developed supplier capabilities and competencies through specialized training programmes where the PSDC was often involved (such as the Global Suppliers, the Continuous Improvement, the Safety and Health, and the Service Supplier programmes); second, it provided other business opportunities, through business matching, strategic alliances, trade fairs and road shows; third, it partnered with government and the local community through participation in activities organized by the Community Advisory Panel, the Small and Medium Industries Development Corporation and the Malaysian Industrial Development Authority.

42. Concerning Intel's primary motives in developing the "Smart" approach, the philosophy of Intel was to be an asset to the community. Company policy provided for indigenization of the managers as opposed to reliance on expatriates. In addition, the commercial benefits of local suppliers were enhanced by the availability of economic

incentives in the form of training funds and tax incentives. This made it easier to get approval from top corporate management for investments in linkage programmes.

43. The Japanese expert described industrial subcontracting in Japan as illustrated by the case of TOYOTA. After the war, the system of industrial subcontracting had played a major role in fostering the competitiveness of the entire Japanese multi-tier productive structure, allowing large firms to expand production without vast investment and to use SMEs as buffers against business fluctuations. The long-term relationship with suppliers had allowed the automotive sector to lower transaction costs and to create an effective inter-firm division of labour. In turn, this cooperative network with corporations like Toyota had enabled suppliers to perform efficiently based on quality upgrading and cost savings.

44. In the new age of more flexible production, the Japanese subcontracting system had had to become more agile. In the case of Toyota the subcontracting practice had become very selective. Small-lot production with higher value added had appeared, and suppliers had become more independent, with many horizontal relations among themselves. The corporate philosophy of Toyota was based on the following pillars: long-term commitment to SME partners, sustainability of SME suppliers, and support to the supplier associations for upgrading human resources in the whole production chain.

45. This long-term commitment had been demonstrated during the Asian financial crisis, when a number of local suppliers of Toyota in Thailand had faced severe liquidity problems. Toyota realized that without a stable network of local suppliers, its own existence was at risk, and it had thus initiated various support measures in order to keep its supply chain afloat. The actions undertaken by Toyota Thailand included price adjustments to mitigate adverse effects of the exchange rate fluctuations, advance purchases to increase turnover, compensation for excess inventory stemming from declines in orders, job transfers from local companies to local joint ventures to utilize excess capacity, and an increase in the volume of local inputs at the expense of imports.

46. A representative from Nestlé shared practical examples of TNC-SME co-operation in developing countries. He emphasized that it was Nestle's long-term strategy to be firmly rooted within the local community of the host country. There were numerous opportunities to work with local firms and suppliers, particularly in the food industry. As the bulk of inputs were localized, Nestlé recognized the benefits of learning from local producers and suppliers and of establishing long-term partnerships with them. Suppliers provided raw materials and packaging. The majority of contractors were engaged in transportation, cleaning and software services. Nestlé applied three criteria for sourcing local suppliers: quality, reliability and price. SMEs were appreciated for their ability to diversify and for their flexibility. The relationship with local SMEs was based on a system of preferred suppliership. This allowed a transfer of knowledge between suppliers and customers, constant upgrading and assistance to SMEs.

47. In order to foster viable linkages, he advised Governments and TNCs to focus only on those SMEs which had a potential for rapid growth. TNCs were not in the development business, but were ready to assist if they saw a potential win-win partnership.

48. The representative from Unilever described the preconditions for successful TNC-SME collaboration. He argued that the experience of Unilever showed how simultaneous long-term growth of the TNC, as well as of its local business partners, was possible and viable. A number of conditions had to be put in place in order to achieve this objective.

49. TNCs should act on the basis of an internally driven ethic rather than on the basis of requirements imposed from above. Their operational principles should be clear and transparent, and be based on the aspiration to become an integral part of the society and not just to exploit local resources. TNCs should demonstrate a strong degree of cultural sensitivity, and the ability to adapt to local conditions, acknowledging and respecting local diversity. Finally, TNCs should seek long-term collaboration with SMEs and a win-win situation among all the stakeholders of the partnership.

50. On their part, SMEs should start from a realistic assessment of their capabilities, demonstrate willingness to learn and have a vision for the future. They should be ready to take advantage of the support provided by the Government or other private entities. Local SMEs could thus benefit from the efforts of TNCs to establish strong market leadership when they shed non-core but essential activities. In the best case, this could result in the upgrading of the whole supply chain, from raw material suppliers to manufacturing contractors and from wholesalers to retail distributors. In addition to transfer of technologies and skills, a steady volume of orders helped SMEs invest in additional capacity or diversify, thus ensuring a certain independence from the TNC partner. The impact of Unilever's policy to make a tangible contribution to local communities and society could be seen in its operations in Viet Nam. Currently 20 per cent of raw materials and 80 per cent of packaging materials were sourced locally, and 40 per cent of production was subcontracted. In order to achieve similar results in Indonesia, UNILEVER had just created a $1 million fund for the support of first-generation SMEs.

51. The representative of BASF described the company's concept of "Verbund", or integrated production-networks, whereby all productive factors, internal and external, were integrated into a network and formed part of a highly interlinked productive chain. All BASF customers, suppliers, business partners, raw-material providers, service providers and R&D specialists in the network provided quick and efficient solutions to complex problems through strategic cooperation.

52. SMEs were an integral part of the "Verbund" concept. Cooperation with SMEs was based on mutual benefit and integration enabled them to concentrate fully on their core competencies. BASF had launched an SME innovation fund of 15 million euros in 1998 to encourage innovation through investments in technology, support of start-ups and expansion of existing companies.

53. Integration within a BASF site offered major economic advantages. Through physical integration, BASF was able to save by creating synergies in the use of infrastructure, the supply of water and energy, the management of an extended value chain, the provision of logistic and purchasing services, investments in respect of health, safety and environmental standards, and contacts with Governments.

D. Evidence of benefits derived by SMEs from linkages

54. One successful subcontractor to TNCs in Malaysia and other parts of the world described how LKT had grown from modest beginnings prior to 1978 to a recognized global supplier in the semi-conductor industry.

55. LKT had progressed from supplying limited products to one TNC to supplying several TNCs and their subsidiaries with various self-designed and self-developed products. LKT had transformed itself from a local automation support provider to a global independent solution provider. The general manager attributed LKT's evolution as a supplier of diversified products to the company's approach to linkages as well as support policies of the Malaysian Government. Tax incentives aimed at domestic firms enabled LKT to invest in R&D. Government trade missions and exhibitions played a role in the identification of and access to new markets. He highlighted TNCs as important contributors to LKT's success in their role as mentors, agents of strategic co-operation, and providers of valuable training, including the transfer of process, quality and management capabilities. LKT is now looking to build on these achievements and assure its future as a player in the industry through product diversification, developing its own brand and expanding global presence.

56. Key lessons learnt by the company from its association with TNCs included the need to:

- Always meet global standards and market expectations;
- Put in place quality systems; and
- Effectively manage business risk.

57. Another presentation by an SME on successful linkages focused on the metal industry in the Philippines which was very broad in scope but shallow in terms of the number of enterprises per product, specialization and sophistication. The director of Metalcast Corporation alluded to the tendency for SMEs to be 'generalists' as a major pitfall to be guarded against. He stressed that it was necessary for all SMEs to define their core competencies. He emphasized that government would also need, by the same token, to identify which sectors were to be supported with respect to fostering TNC-SME linkages and enterprise development.

58. He identified the problems of 'improper customer mix' (whereby an SME subcontractor was overly dependent on a single TNC as a customer) and the failure of many SMEs to invest in organizational capabilities. As an example of the first case, he cited the instance where TNCs required subcontractors to implement annual "cost downs". For many SMEs in the Philippines, the only avenue through which this requirement could be met was through reductions in labour costs. However, year-on-year wage cuts proved neither sustainable nor socially acceptable.

59. He recommended that SMEs give equal importance to the development of their organizational structure (software) and capital investments (hardware). Turning to the specific experience of Metalcast Corporation, he described the corporation as an amorphous enterprise with an organizational structure based on 'product owners' rather than on separate departments. This flexible structure facilitated a customer-focused approach and direct interaction and feedback with the customer, thus enhancing worker commitment to customer satisfaction.

60. He stated that international purchasing offices (IPOs) had played a major role in helping Metalcast establish linkages with TNCs outside the Philippines. He recommended that SMEs employ the services of IPOs in order to penetrate global supply chains and establish TNC-SME linkages. In his view, the pivotal role that IPOs played in this area warranted the organization by UNCTAD of an expert meeting focused on them.

61. In addition to utilising the services of IPOs, Metalcast Corporation also took advantage of the services offered by government trade offices, relied on referrals by its foreign customers and participated in local and international trade fairs. In his company's experience, participation in trade fairs was only worthwhile if the trade fair was an 'appropriate' one, that is if SMEs were not outclassed or overwhelmed.

62. With regard to how his company identified market opportunities, he stressed that the role played by the Government was very important. The Philippines Government had had the foresight to set up the Department of Trade which was responsible for identifying competitive domestic industries and supporting them by developing and maintaining databases on market opportunities and business inquiries and disseminating this information. His company had benefited greatly from the services of the Department of Trade, in addition to the services of the IPOs and referrals by satisfied customers, which LKT regarded as the most important method.

63. In discussing the benefits of linkages, the experts noted that SMEs ranged from survivalist to profit-making enterprises. Only the most dynamic SMEs, namely those that grew rapidly, stood a chance of becoming global players. Such dynamic SMEs could develop into international SMEs, or grow into small TNCs and become regional partners for large TNCs. Experience had shown that SMEs could also grow beyond the role of supplier and become a TNC with a regional scope. Regional agreements that allowed for free trade and investment, such as SADC and COMESA in Africa, favoured the internationalization of

firms. Benefiting from SADC and COMESA arrangements, enterprises in Mauritius had established themselves successfully in sub-Saharan Africa.

E. Sectoral and regional concentration of successful linkages

64. The experts observed that opportunities for linkages between TNCs and SMEs were not confined to knowledge-intensive sectors but also existed for non-knowledge-intensive production such as packaging, garment, footwear and toy manufacture, and the food industry. Furthermore, these linkages could often be established without major financial investments by participating SMEs. This meant that TNC-SME linkages could be achieved in regions that were technologically less advanced.

65. During the discussion, a number of experts also asked why TNCs had a preference for Asia and had so far avoided Africa as an investment location. In responding to these questions, TNC representatives highlighted a number of constraints in Africa which discouraged investors, such as low market volumes and instability, which were particularly important for TNCs for which profitability was dependent on achieving economies of scale. They also mentioned a perceived lack of entrepreneurial tradition, in contrast to Asia. This lack of entrepreneurial drive was attributed to neglect of the private sector and lack of an enabling business environment.

66. However, the point was made that there was no real reason why SMEs in Africa and other regions such as Latin America could not develop linkages with TNCs, as there were plenty of opportunities, particularly in the traditional sectors. To realize potential linkages, it was crucial that Governments in these regions develop adequate infrastructure and human capabilities in order to position themselves for opportunities that might arise. It was important for Governments and SMEs to realize that the deciding factor for TNCs was profitability. This meant that country conditions had to be competitive in order to enable domestic enterprises to engage TNC interest. The importance of education was reiterated as a necessary condition for competitiveness. Governments were encouraged to seek linkages between TNCs and universities as one way in which to address skill deficiencies.

67. The experts recognized that TNCs' and subcontracting SMEs' interests in forging linkages were different. Moreover, these differences influenced whether linkages established were based on equal partnership or dependence. This might have implications for the durability of linkages in different situations and for strategies employed to facilitate them For example, among other things, TNCs sought linkages with subcontractors in order to:

- Fill a temporary need,
- Access a product which the subcontractor manufactured, which the TNC did not know how to produce, or the subcontractor produced at a lower cost.

68. In light of the fact that TNCs were highly mobile and could easily establish themselves in other countries where conditions were more favourable, it was suggested that a

more efficient strategy was for Governments to create the conditions for SMEs to be able to meet the quality, quantity and delivery schedule requirements of TNCs rather than provide direct assistance to individual SMEs.

69. It was further stressed that SMEs should bear in mind the possibility of a rupture in their links with TNCs. Many subcontractors were dropped by TNCs in times of crisis. It was therefore important that SMEs continuously strive to develop other capabilities, diversify their products and broaden their customer base and markets in order not to become too dependent on one TNC.

70. The experts noted that some TNCs had very elaborate programmes to upgrade local suppliers, while others put more of the burden for upgrading on the SMEs themselves. However, even the "SMART" approach had benefited from public-private partnerships. Possibly the most hopeful message to SMEs was that TNCs did not expect them to meet all their requirements immediately but rather to have the potential to meet them. All TNCs that were building supply chains with a positive development impact had in common a commitment to the local community and to the host country.

71. The issue of how to overcome rivalry between competitors and foster cooperation among TNCs and between TNCs and local SMEs, as well as amongst the SMEs, while at the same maintaining a healthy degree of competition, was debated. A mixture of self-interest and community spirit compelled TNCs in Penang to work together and also to assist their local SME subcontractors. Once the TNCs came to the realization that remaining competitive depended on those around them also being competitive, they focused on achieving mutual benefits. These common endeavors were firmly rooted in the quest for continuous improvement and low total costs keeping competition alive.

72. The fact that TNCs were members of the same industrial association and were brought together by common concerns facilitated their combining forces with the local authorities and the community for their collective benefit rather than continuously asking for concessions from the local authorities. An important catalyst was the fact that the majority of the TNCs in Penang were headed by Malaysians who demonstrated a strong commitment to assisting in the development of local SMEs. This factor prompted the question of whether the same level of commitment and developmental approach could be expected from other TNCs. It also prompted the question as to whether the TNCs in Penang could be classified as developmental TNCs of the type that other developing countries should target when promoting TNC-SME linkages. It was suggested that any smart TNC was "developmental" in the long run. If an enterprise was interested in making short-term profits, it could be exploitative; however, if it wanted to remain profitable in the long run, it had to be seen as contributing to the community and exercising social responsibility.

F. Role of the international community

73. During the last informal session, presentations were made by EBRD, the Commonwealth Secretariat, UNIDO and ECE. Both EBRD and UNIDO were in the process of creating programmes fostering TNC-SME linkages, whereas the Commonwealth Secretariat and ECE had only general programmes for SME policy and support.

74. The EBRD described the particularly difficult situation in Eastern and Central Europe, where there was little experience with the private sector and where Governments were weak, which resulted in a generally hostile business environment. The SMEs which have benefited from EBRD credit and support service programmes could be classified as traders of goods and services rather than as producers who invested in productive assets and grew. This was, in part, due to restrictions whereby banks were unable to extend loans for more than one year. EBRD was searching for ways to use the initiative of TNCs. It was setting up a support system for SMEs in Kazakhstan to assist them to become suppliers to a steel plant. Whether this approach would work in Central Asia depended as always on the level of government commitment to SMEs to build a supplier base. Also the steel plant must have a long-term vision and understand that it was in its best interest to create a core of long-term suppliers rather than relying on short-term strategies to push down supplier costs. However, EBRD would not encourage Governments to provide business services, and so it was looking for alternatives, such as those that could arise from TNC-SME linkages.

75. The approach of the Commonwealth Secretariat was to make SMEs partnership-ready through a variety of services. It was shifting from serving SMEs on a one-to-one basis to institution building. It promoted competitiveness via diagnostic assessments, networking activities, and improving business development services.

76. The UNIDO representative described a pilot project with UNIDO, FIAT and various Indian authorities to upgrade local subcontractors in the automobile industry. The concept involved achieving various quality improvements in processes and products without making additional investments. The most important factor in its success was achieving a change in mindset. The upgrading programme had achieved significant results in terms of improvements in product quality, use of production space, absenteeism and sales.

III. ORGANIZATIONAL MATTERS

A. Convening of the Expert Meeting

77. At the consultations of the President of the Trade and Development Board with the Bureau, coordinators and interested delegations on 31 March 2000, member States decided to convene an Expert Meeting on the Relationships between SMEs and TNCs to Ensure the Competitiveness of SMEs. The decision was made in accordance with the UNCTAD X Plan of Action (TD/386).

B. Election of officers

(Agenda item 1)

78. At its opening meeting, the Expert Meeting elected the following officers to serve on its Bureau:

Chairperson:	Mr. Miguel Von Hoegen (Guatemala)
Vice-Chairperson-cum-Rapporteur:	Mr. Kevin Carroll (Ireland)

C. Adoption of the agenda

(Agenda item 2)

79. At the same meeting, the Expert Meeting adopted the provisional agenda circulated in document TD/B/COM.3/EM.11/1. Accordingly, the agenda of the Meeting was as follows:

1. Election of officers

2. Adoption of the agenda and organizational work

3. The relationships between SMEs and TNCs to ensure the competitiveness of SMEs

4. Adoption of the outcome of the Expert Meeting

D. Documentation

80. For its consideration of the substantive agenda item (items 3), the Expert Meeting had before it a background paper by the UNCTAD secretariat entitled "Enhancing the competitiveness of SMEs through linkages" (TD/B/COM.3/EM.11/2).

E. Adoption of the outcome of the Meeting

(Agenda item 4)

81. At its closing meeting, on 29 November 2000, the Expert Meeting adopted the outcome of the Meeting reproduced in section I above.

Annex

ATTENDANCE *

1. Experts from the following States members of UNCTAD attended the Meeting:

Azerbaijan
Barbados
Burkina Faso
Cameroon
Chile
China
Costa Rica
Cuba
Democratic People's Republic of Korea
Denmark
Dominican Republic
Egypt
El Salvador
Ethiopia
France
Germany
Ghana
Guatemala
Hungary
India
Indonesia
Iran (Islamic Republic of)
Ireland
Italy
Japan
Kyrgyzstan
Madagascar
Malaysia
Mauritius
Mexico
Morocco
Namibia
Netherlands
Nicaragua
Peru
Philippines
Republic of Korea
Russian Federation
Rwanda
Saudi Arabia
South Africa
Spain
Sri Lanka
Swaziland
Switzerland
Tajikistan
Thailand
Togo
Tunisia
Turkey
United Kingdom of Great Britain and Northern Ireland
United Republic of Tanzania
Venezuela
Zimbabwe

* For the list of participants, see TD/B/COM.3/EM.11/INF.1.

2. The following intergovernmental organizations were represented at the Meeting:

Arab Labour Organization
Association of African Trade Promotion Organizations
Commonwealth Secretariat
European Community
League of Arab States
Organisation for Economic Co-operation and Development
Organization of the Islamic Conferenc

3. The following specialized agencies were represented at the Meeting:

International Maritime Organization
World Intellectual Property Organization
United Nations Industrial Development Organization

4. The Economic Commission for Europe and the United Nations Development Programme were represented at this Meeting. The International Trade Centre UNCTAD/WTO was also represented at the Meeting.

5. The following non-governmental organizations were represented at the Meeting:

General Category

World Federation of the United Nations Associations

6. The following institutions attended the Meeting:

Codeti Foundation
Economic Co-operation Organisation

UNITED NATIONS **TD**

United Nations Conference on Trade and Development

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REPORT OF THE EXPERT MEETING ON HUMAN RESOURCES DEVELOPMENT AND TRAINING IN TRADE-SUPPORTING SERVICES: KEY TO GROWTH WITH SPECIAL POTENTIAL FOR LDCs

Held at the Palais des Nations, Geneva,
from 13 to 15 December 2000

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Annex

Attendance 12

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ENG

I. OUTCOME OF THE EXPERT MEETING

1. The experts consider that human resources development (HRD) in trade-supporting services has an enormous potential for sustainable development, and that appropriate action should be given priority attention by Governments, communities and enterprises.

2. While HRD and training for trade-supporting services are essential for all developing countries, LDCs may derive comparatively greater benefit from related action and in particular from cooperative action among themselves and with other countries.

3. Having examined the status of trade-supporting services in developing countries and the scope for improvement through HRD, the experts considered strategies and reached conclusions about action to be recommended.

4. To achieve and support the application of effective policies, action needs to be taken within countries and by international agencies. The proposals set out below, which relate specifically to trade-supporting services, will facilitate and significantly enhance those services' contribution to growth through the generation of trade, with positive effects on quality of life and poverty alleviation. Above all, countries should have a strong policy for HRD with respect to trade-supporting services and should apply it faithfully; this should be pursued so as to remain sustainable regardless of external assistance which may be provided beneficially from time to time. The role of the international agencies should be to persuade and to facilitate fulfilment of this goal.

5. Proposals for action within countries include the following:

(a) Governments should adopt a policy framework for HRD, which should be developed jointly by government and the private sector. The framework should include the concept of national councils for HRD in trade-supporting services, which would be public/private partnerships. Business-sector organizations, which may be interested in providing a nodal agency as a focus for action, should apply policies within the framework;

(b) To encourage the application and adoption of policy action, awareness raising needs to start promptly; this may be initiated by local institutes for management or public administrations, but should be supported by programmes undertaken by international bodies;

(c) The effective application of HRD will be greatly enhanced by the existence, at local or regional level, of high-quality HRD institutions for trade-related services, covering training, advisory, analytical and research functions. These should be developed from or within existing institutions; government, business-sector and international/regional institutions should all collaborate in setting them up;

(d) Regional and international cooperation is essential for expanding and improving HRD and for keeping practices up-to-date, especially in LDCs. Such cooperation, by communities, institutes and businesses, needs to be encouraged by government policies; it may be reinforced through networking programmes of UN agencies. Further, the business sector should investigate professional contacts that may be a source of cooperation in HRD;

(e) Training is only one component of HRD; training services should be developed by countries bearing in mind the need for regulatory and institutional change to make training and HRD effective;

(f) Bearing in mind the need to give HRD in trade-supporting services highest priority, there is need to develop common standards and procedures in the conduct of the professional duties concerned, so public/private sectors must take initiatives towards the creation of national standards, with simplification and consolidation of procedures, to promote professionalism and facilitate coherent HRD;

(g) The private sector must recognize the need to use advocacy and lobbying so as to gain highest priority for HRD in trade-related services;

(h) Businesses need policies reached by mutual agreement that recognize the performance achievements that can be reached by personal competence, the definition of qualifications, the measurement of performance and the constraints imposed through HRD to achieve higher standards.Government, the business community and individual businesses should cooperate in their respective ways so that policies use the role of the private sector as a motor in implementing HRD policies and measures.In particular, businesses should:

(i) Define a vision statement based on self confidence and commitment to use internal resources rather than rely on external assistance and funding;

(ii) Use indicators to measure the impact of steps taken to improve HRD;

(iii) Ensure that line managers are intimately involved in the implementation of HRD policy, including identifying and applying career plans and motivational measures that are psychological and financial and involve peer comparison and promotion;

(iv) Notwithstanding the need for self-reliance, encourage external cooperation and assistance in plans made by the company, Government and private sector;

(v) Bear in mind that mobility of human resources, wherein people change company to gain experience, can be highly beneficial provided it happens within a career plan and is not assimilated with turnover of staff and its negative impact;

(i) The policy framework for HRD should help the private sector in consolidation of trade supporting services by encouraging the adoption of privatization or concession policies for transport infrastructures and providers, commercial viability studies, reduced bureaucracy, and stimulation of commercial strategies and marketing of services. In particular, the role of the private sector should be reinforced by measures that:

(i) Encourage and support the public business sector in efforts for adaptation to free market rules, thus promoting competition which motivates HRD;

(ii) Help the private sector to establish incentives for continuous training inside and outside the enterprise, including fellowships for acquiring and upgrading of skills in the framework of sound career plans;

(iii) Change attitudes so that training is seen as an investment instead of simply a cost with marginal benefit;

(iv) Support general efforts to retain qualified manpower;

(v) Establish mechanisms for exchange of expertise among LDCs.

6. Action by the international community is particularly important in relation to HRD for trade-supporting services. Several international agencies have an important role to play, and their efforts need to be coherent to encourage best use of resources. The involvement of UNCTAD has been emphasized in the Bangkok Plan of Action with its emphasis on capacity building, so it would be appropriate that UNCTAD, in cooperation with ITC, take initiatives to encourage international and regional agencies to work together on HRD to avoid duplication, to create synergies and to expand capacity.

7. Proposals for action by international agencies, and in particular UNCTAD, should include:

(a) Drafting a model policy framework for HRD that countries can adapt to local circumstances, and further assisting LDCs to develop an HRD framework that takes into account the market needs of the LDCs and their learning capacities, as well as the learning needs of individuals involved in trade-supporting services;

(b) Stressing the need for Governments to establish national councils for HRD in trade-supporting services, developing a structure for a national nodal agency, and assisting in development of strategic plans by analysing and incorporating the best practices at the global level;

(c) Organizing meetings, exchanges, and dissemination of effective practice in order to maintain the commitment of all stakeholders in the development of trade in LDCs, and supporting international exchanges between LDCs and developed and developing countries in order to improve international trade through sharing of experience among people engaged in trade-supporting services;

(d) Encouraging developing countries to set aside an adequate training budget, possibly linked to debt relief for LDCs with a view to ensuring money is used for training and supplementing this by seeking funds and assistance to improve management capacity and provide other training opportunities through assistance programmes designed and implemented in such a manner as to enable countries to be self-reliant in the shortest possible time;

(e) Encouraging developed countries to contribute, through partnerships and cooperation, to the enhancement of competence in developing countries, and advocating, in connection with the best endeavour clauses covering training in all the WTO agreement and with commitments made at other fora, that support for HRD should be rendered more specific and provided with a time frame;

(f) Reinforcing international programmes for training the trainers and helping to establish or reinforce regional-based training systems so as to enhance training opportunities and optimize use of resources;

(g) Exploring and making recommendations on the role of communities in trade-supporting services and the ways in which HRD can be enhanced by cooperation across communities;

(h) Facilitating statistical research in HRD in developing countries, and specifically for LDCs, including research on issues such as education of women and children;

(i) Recommending steps and policies for Governments to encourage competition among LDC public organizations, with consequent effects on motivation for HRD and benefits to be derived, including for trade-supporting services.

II. CHAIRPERSON'S SUMMARY

8. Discussion in informal sessions covered five different themes, for each of which there were a number of presentations followed by discussion and the identification of specific points of importance. The first was "HRD for growth". In two presentations, Ms Chua Soh Hoon described the development of the port of Singapore over nearly 40 years and the role of HRD in its success, while Mr Negussie Ambo described the procedures and performance of Ethiopian Airlines, which had established high standards and a high reputation through long-term performance underpinned by HRD. The conclusion was reached that trade-supporting services reinforced through HRD had a key role to play in providing opportunities for trade to grow, and that this was entirely feasible for LDCs.

9. Many indicators of good practice emerged – including national measures such as creation of a focal point for HRD, people development programmes, and creation of standards by certification of jobs – and enterprise measures such as the raising of funds for training through a mandatory levy, quality circles which encourage team work and engagement in performance improvement, the concept of lifelong learning shared by enterprises and post-secondary institutes, training oriented to future roles for the individual, and a community approach to training.

10. "Making a success of HRD" was the next theme. A first presentation was given by Ms Perla Segovia who described the restructuring of the Philippines National Power Corporation, in which transformation of performance was based on HRD policy. While training had been important, results depended on a training support system and a good organizational climate for HRD. However, enthusiasm for training had later waned, which suggested that its benefits were not sufficiently valued, or that maintaining performance was too much trouble for insufficiently motivated management. It was agreed that problems of sustainability and of non-training aspects of HRD needed critical attention.

11. Next Ms Zini Mchunu presented work of the Education with Enterprise Trust, which had helped a large number of communities in South Africa to focus on growth by working together and the adoption of HRD measures across the community. Particular attention was given to the need for Government, community and business to get together, and to the influence of "soft" issues: attitudes had to change in ways that could not be prescribed. It was generally agreed that there was a need for social dialogue, through which everyone could contribute to shaping policy.

12. The theme which followed was "HRD in trade-supporting services". In his presentation, Mr J P Agrawal of Nepal expressed his view as a business man from an LDC that trade-supporting services provided a big opportunity: countries like his needed to succeed in niche markets and these depended on trade-supporting services, most of which were provided by government. Yet despite lots of training the services had not been up to the mark, so improvements needed to be sought both in the training and in the working

environment. A further presentation by Mr Y Aseffa, Secretary General of the African Insurance Organization (AIO), based in Douala, Cameroon, explained the dependence of African business on foreign insurance companies and the need for local training to enhance the services available. This was being done particularly through training of trainers and with the long-term support of UNCTAD. Some countries had recognized the need for insurance competence and provided for a training levy as a percentage of turnover, which had proved an effective means of enabling training services to be provided – particularly through regional colleges. AIO had a successful system to enable experience to be shared between countries; this offered particular potential for LDCs, but it was noted that many smaller countries still felt a need for donor funding to meet their requirements.

13. The next theme considered was "Training at the heart of development". In a presentation bridging from the earlier theme, Ms Geetha Karandawala explained the approach of ESCAP for the improvement of trade-supporting services in Asia and the Pacific. After identifying key issues in the region, she highlighted three issues: the benefits of working with many willing partners in the field of HRD – from Singapore Polytechnic to the TRAINMAR programme of UNCTAD; the rapport between private and public sectors so that both played an effective role in improved trade-supporting services; and the growing importance of tutored distance learning to satisfy the demand for constant renewal of training. The vision of ESCAP included helping the region to have a knowledgeable, articulate and confident workforce to drive forward the region's economy. In a second presentation, the UNCTAD secretariat described the uniform methodology and networking fostered by its programmes TRAINFORTRADE and TRAINMAR. Training of trainers was particularly important and close attention was given to the use of new technology. In a presentation that led straight from the previous one, Mr Luis Musolino, from Argentina, warned of the need for caution in the use of technology for training but confirmed the value of using a uniform methodology and networking in training. Using experience with the TRAINMAR Association of South America (ATAS), he explained how institutional stability could be achieved, and quality assured, by using the uniform methodology and networking. He described how ATAS had been able to continue to meet customer needs when the economies of Latin America had been restructured, and the steady expansion of its role, first to Central America and then to countries of the Black Sea – each region quite different from the other. The effectiveness and transferability of the approach appeared well proven, but could succeed only if top-level managers were first convinced of the need to get other levels of staff trained effectively.

14. In continuation of the training theme, a half day was devoted to study of technology-based learning and distance learning in particular. The Coordinator of UNCTAD's TRAINFORTRADE programme described a meaningful strategy for the introduction of distance learning and networking among developing countries. Three providers of training products: IBM, WebCT, and the Open University of Great Britain, described types of product becoming available and likely to be of future value to developing countries. Recent growth in e-learning had been phenomenal, and if the extremely high cost of some applications cold be contained, e-learning would soon have major applications in many developing countries. Some particular points were that:

Distance learning had a long history and was becoming significant now only because of developments in information and communications technology, but products were robust in form and should be accessible to all countries;

Effective learning was not automated, and work at a computer must be supported by tutorship;

Generalist education might be of more value than specialist training, and this lent itself to distance learning because high production costs could be spread over more learners;

The amount of information absorbed by a learner depended on the type of learning support, and while hard text remained important, multimedia methods clearly expanded the potential learning effect.

15. Dr Mohd Youssef made a short presentation of multimedia products. He noted widespread resistance to change, which needed to be overcome if economic progress was to be made, and the value of well designed multimedia learning materials for overcoming this resistance and making training effective. The department that he directed, at the Arab Academy for Science and Technology in Alexandria, Egypt, produced such materials, which he was able to demonstrate. He showed a new product for management of environmental conditions in ports which was the adaptation of a traditional TRAINMAR course: this demonstrated both the power of new technology and the possibilities that already existed for cooperation between developing countries to provide very high-quality training. He too stressed the importance of an instructor and how the limitations on learning exclusively over the Internet, which arose through bandwidth restrictions, could be largely overcome by hybrid materials mixing CD-ROM and the Internet. A final presentation from ILO, including a demonstration of distance learning provided by the ILO centre at Turin, rounded off the presentations on this theme.

16. The fifth theme examined was "Measures to best serve LDCs". Further presentations were made on particular applications of training and HRD in LDCs: Mr Gidafe Abate on training in support of HRD policy in Ethiopia, Mr Claude Lishou on distance learning applied in Mali and neighbouring countries, and Mr Ferdinand Assogba-Dognon on HRD to follow up on training in Benin. These confirmed the potential for modern training and HRD to be put into practice in LDCs. Consideration of this theme was rounded off by a presentation by Mr Chan Sophal on the benefits and limitations of external support based on recent experience of Cambodia, highlighting the importance of internally generated activity wherever possible.

17. Presentations and discussions were accompanied by group work that allowed all experts a chance to contribute views on the very wide number of issues involved. The experts split into small working groups of about six persons to analyse problems, challenges and

solutions. Seven groups, representing the different points of view of government, public and private business sectors and different levels of development, each met and discussed the status of trade-supporting services and their potential for improvement through HRD. Spokespersons for the groups reported to the body of the Meeting and the conclusions reached were the primary source of proposals contained in the outcome of the Meeting.

18. In discussion of the overall findings, there was concern whether UNCTAD would have the capacity to carry out duties that experts felt needed to be taken on by the international community. Concern was allayed by the suggestion that support should be provided from across the international community, but experts felt this needed to be coordinated and suggested that UNCTAD might be the lead agency for this.

19. In group discussion it was agreed that Governments did not give priority to HRD or to trade-supporting services, and that donors would not normally give priority to this type of activity. Governments should be persuaded to give top priority to HRD for trade-supporting services. Undertaking this persuasion was a highly important role that UNCTAD should play. Once convinced, a Government should establish a standing committee to focus on HRD in trade-supporting services, which should include government, academics and business. Government should encourage the private sector to invest in HRD, and this could be facilitated by the allocation of tax breaks and other incentives for training.

20. Discussion also reviewed the role of donor-funded projects to reinforce the introduction of HRD. It was felt that donor projects were often unsuccessful because local resources mobilized during a project were generally not sustained afterwards. Governments needed to be ready to assume their role and this would require greater preparation and advocacy inside and outside the country. A further view was that institutional arrangements were often outdated and that training could be effective only if introduced together with new systems. However, it was also felt that this should not prevent a start being made, as widespread training should improve general competence and this would in itself lead to institutional changes. It was also noted that the roles of the public and private sector could not always be identified uniquely: there was an important role for communities and for NGOs that worked with them. The potential for NGOs to contribute to HRD in trade-supporting services should be given close attention.

III. ORGANIZATIONAL MATTERS

A. Convening of the Expert Meeting

21. At the consultations of the President of the Trade and Development Board with the Bureau, coordinators and interested delegations on 31 March 2000, member States decided to convene an Expert Meeting on Human Resources Development and Training in Trade-supporting Services: Key to Growth with Special Potential for LDCs. The decision was made in accordance with the UNCTAD X Plan of Action (TD/386).

B. Election of officers

(Agenda item 1)

22. At its opening meeting, the Expert Meeting elected the following officers to serve on its Bureau:

Chairperson:	Mr. Kodjo Alexandre Aziabu (Togo)
Vice-Chairperson-cum-Rapporteur:	Mr. Kailash Kumar Dewan (Nepal)

C. Adoption of the agenda

(Agenda item 2)

23. At the same meeting, the Expert Meeting adopted the provisional agenda circulated in document TD/B/COM.3/EM.10/1/Rev.1. Accordingly, the agenda of the Meeting was as follows:

1. Election of officers
2. Adoption of the agenda and organizational work
3. Human resources development and training in trade-supporting services: Key to growth with special potential for LDCs
4. Adoption of the outcome of the Expert Meeting

D. Documentation

24. For its consideration of the substantive agenda item (items 3), the Expert Meeting had before it a background paper by the UNCTAD secretariat entitles "Human resources development and training in trade-supporting services: Key to growth with special potential for LDCs" (TD/B/COM.3/EM.10/2).

E. Adoption of the outcome of the Meeting

(Agenda item 4)

25. At its closing meeting, on 15 December 2000, the Expert Meeting adopted the outcome of the Meeting reproduced in section I above.

Annex

ATTENDANCE *

1. Experts from the following States members of UNCTAD attended the session:

Albania
Angola
Benin
Brazil
Burkina Faso
Burundi
Cambodia
Cameroon
Cape Verde
China
Colombia
Comoros
Costa Rica
Cote d'Ivoire
Dominican Republic
Egypt
Ethiopia
Finland
France
Gambia
Germany
Ghana
Guinea
Honduras
India
Indonesia
Iran (Islamic Republic of)
Italy
Jordan
Madagascar
Mali
Mauritius
Mauritius
Monaco
Morocco
Mozambique
Nepal
Niger
Nigeria
Oman
Palau
Peru
Philippines
Romania
Russian Federation
Saint Lucia
Sao Tome and Principe
Saudi Arabia
Singapore
South Africa
Spain
Sudan
Tajikistan
Thailand
Togo
Tunisia
Turkey
Uganda
United Kingdom of Great Britain and Northern Ireland
United Republic of Tanzania
Viet Nam
Zambia

2. Palestine attended the session as an observer.

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* For the list of participants, see TD/B/COM.3/EM.10/INF.1.

3. The following intergovernmental organizations were represented at the session:

Arab Labour Organization
League of Arab States
Mano River Union
Organization of the Islamic Conference
South Centre

4. The following specialized agencies were represented at the session:

International Labour Organization
World Health Organization
International Telecommunications Union
World Intellectual Property Organization
United Nations Industrial Development Organization
World Trade Organization

5. The Economic Commission for Europe and Economic and Social Commission for Asia and the Pacific were represented at this session.

6. The following non-governmental organizations were represented at the session:

Special Category

International Confederation of Free Trade Unions
World Federation of the United Nations Associations
Engineers of the World

7. The following special invitees attended the session:

Mr. Negussie Ambo, Ethiopia
Mr. Yoseph Aseffa, AIO
Mr. Kailash Kumar Dewan, Nepal
Mr. Belarminio A. Ferreira Lucas, Cape Verde
Mr. Colin W.J.A. Gray, Open University, United Kingdom
Mr. Geethangani Karandawala, ESCAP
Mr. Gidafe Katema Abate, Ethiopia
Mr. Ari Leino, Web CT, Finland
Mr. Claude Lishou, Senegal
Mr. Luis Musolino, Argentina
Ms. Perla Segovia, Philippines
Mr. Pascal Schlittler, IBM, Switzerland
Mr. Aly Youssef Mohamed, Egypt

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TRADE AND DEVELOPMENT BOARD
Commission on Enterprise, Business Facilitation and Development
Fifth session
Geneva, 22-26 January 2001
Item 2 of the provisional agenda

PROVISIONAL AGENDA AND ANNOTATIONS

I. PROVISIONAL AGENDA

1. Election of officers

2. Adoption of the agenda and organization of work

3. Enhancing the competitiveness of SMEs in the context of FDI in developing countries: Relationships between SMEs and TNCs to ensure the competitiveness of SMEs

4. Capacity-building in electronic commerce: impact of the new economy on traditional sectors of developing economies: Electronic commerce and tourism

5. Human resources development and training in trade-supporting services: Key to growth with special potential for LDCs

6. Provisional agenda for the sixth session of the Commission

7. Other business

8. Adoption of the report of Commission to the Trade and Development Board

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II. ANNOTATIONS TO THE PROVISIONAL AGENDA

1. The Conference, at its tenth session, held from 12 to 19 February 2000 in Bangkok (Thailand), in considering the issue of UNCTAD's intergovernmental machinery, welcomed the document prepared by the UNCTAD secretariat entitled "Improving the functioning and the structure of the intergovernmental machinery of UNCTAD" (reissued in TD/B/EX(24)/L.1). The purpose behind the recommendations contained in that document was *inter alia* to enhance the status of the Commissions as policy-formulating organs and to strengthen the substantive linkages between expert meetings and Commissions. It was recommended that the Commission's work should be informed by the technical advice of the experts, that the Commissions should place the results of expert meetings within the appropriate policy context and framework, and that, on the basis of the expert reports and their own policy dialogue, the Commissions should make recommendations on actions to be taken by member States, UNCTAD or other bodies.

2. To this end, the Commission will have before it the reports of the expert meetings held during the previous months, as well as documentation prepared by the secretariat identifying, and commenting on, the policy questions posed by the expert reports for discussion by the Commission. In this connection, the outcomes of the expert meetings were circulated by the secretariat to member States with a request for policy comments on the experts' recommendations. The task of the Commission is to conduct policy dialogue and make policy recommendations on the outcome of the expert meetings, taking into account the views from the capitals.

Item 1 - Election of officers

3. In accordance with rule 18 of the rules of procedure of the main Committees of the Trade and Development Board, the Commission shall elect a Chairman, five Vice-Chairmen and a Rapporteur from among the representatives of its members, taking into account the need to ensure equitable geographical distribution. Rule 19 of the rules of procedure states that the bureau of the Commission shall consist of seven members (i.e. four members from Lists A and C combined, two members from List B and one member from List D referred to in the annex to General Assembly resolution 1995 (XIX) as amended).

4. Accordingly, following the cycle of rotation established after UNCTAD X, the bureau for the fifth session of the Commission shall be as follows: Chairman from List D Rapporteur from List A (Africa); and five Vice-Chairmen (3 from lists A and C combined, and 2 from List B).

Item 2 - Adoption of the agenda and organization of work

5. The substantive agenda items for the fifth session of the Commission, as reproduced in the provisional agenda in section I above were agreed to at consultations of the President of the Trade and Development Board with the Bureau, coordinators and interested delegations on 31 March 2000.

Organization of work

6. The Commission will have five working days, from 22 to 26 January 2001, to complete its work. The first plenary meeting, on Monday, 22 January, will consist of the opening and formal introduction of item 3. It is suggested that the rest of Monday, 22 January, and Tuesday, 23 January, be devoted to informal discussions on item 3 of the provisional agenda.

7. On Wednesday, 24 January, it is suggested that the Commission start consideration of item 4 of the provisional agenda. The consideration of this item, in both formal and informal settings, would continue until the end of the afternoon session of Wednesday, 24 January.

8. It is further suggested that consideration of item 5 of the provisional agenda would commence on Thursday, 25 January and would continue during the afternoon session. The remaining time of the afternoon session of Thursday and, if necessary, part of the morning of Friday, 26 January, will be devoted to discussing the outcome of the session.

Documentation

TD/B/COM.3/33 Provisional agenda and annotations

Item 3 - Enhancing the competitiveness of SMEs in the context of FDI in developing countries: Relationships between SMEs and TNCs to ensure the competitiveness of SMEs

9. With a view to expediting substantive discussions at the Commission's session, the secretariat has prepared two reports entitled: (i) "Enhancing the competitiveness of SMEs in the context of FDI in developing countries" (TD/B/COM.3/32) (ii) "Relationships between SMEs and TNCs to ensure the competitiveness of SMEs" - Outcome of the Expert Meeting (TD/B/COM.3/EM.11/L.1.)

10. The issues paper, "Enhancing the competitiveness of SMEs in the context of FDI in Developing Countries", which reviews the current mandates of UNCTAD in the area of enterprise development, is divided into two parts. Part I describes topics currently under consideration for enhancing the competitiveness of small and medium-sized enterprises, particularly through linkages with TNCs. Part II presents three further issues of relevance for SMEs, namely, innovative mechanisms for financing SMEs, policy coherence between national enterprise development strategies and obligations emanating from international commitments, and the digital divide. The purpose of this paper is to assist the Commission in prioritizing its work leading to UNCTAD XI.

11. The Expert Meeting on Relationships between SMEs and TNCs to Ensure the Competitiveness of SMEs was held in Geneva on 27-29 November 2000. The selection of this topic allowed an integration of the analysis and discussion on foreign direct investment (FDI) and building productive capacity via SME growth and development. Approximately 65 experts from capitals and international organizations discussed best practices in deepening the development impact of FDI, particularly through the promotion of specific policies and programmes to promote linkages between TNCs and SMEs. Thirty-five of the experts contributed papers and 19 made formal presentations. The high level of preparedness and interest facilitated the discussions. The results are contained in the report of the Expert Meeting (TD/B/COM.3/EM.11/3).

12. One of the main conclusions was that the survival, growth and competitiveness of SMEs in a globalizing world economy can best be assured through actions undertaken in the context of public/private sector partnerships which include government, TNCs, national business associations and SME support agencies. The experts discussed how the successful experiences of Asia in promoting linkages could be replicated elsewhere and in particular what investment and enterprise policies were most effective. The experts also identified aspects upon which they could not agree for lack of firm evidence or which needed further study. Since this meeting was held in late November, an oral report will be made on any policy comments received from Member States on the expert's recommendation.

Item 4 - Capacity-building in electronic commerce: impact of the new economy on traditional sectors of developing economies: Electronic commerce and Tourism

13. In accordance with the decision made by the executive session of the Trade and Development Board on 12 May 2000, the Expert Meeting on Electronic Commerce and Tourism was held in Geneva on 18-20 September 2000. Approximately 100 experts, representing Governments, NGOs, tourism organizations and enterprises, academicians and information technology experts attended the meeting. The event provided an opportunity for an exchange of experiences and views on a wide range of issues on e-commerce and tourism. The report of the Expert Meeting is contained in document TD/B/COM.3/30 - TD/B/COM.3/EM.9/3. The main recommended activities for UNCTAD's future work in electronic commerce are as follows:

(a) To carry out analytical work, with a view to assessing the impact of e-commerce on development and providing advice on how to maximize the benefits of e-commerce;

(b) To carry out case studies and analysis of fundamental issues in commerce, such as problems of online payments, encryption, electronic signatures and new technologies that can support e-commerce;

(c) To stimulate exchanges of experiences in e-commerce and to disseminate information about those experiences to developing countries;

(d) To promote capacity building in e-commerce;

(e) To promote partnerships along the entire e-commerce chain as a means for supporting the growth of e-commerce in developing countries.

14. In addition, the secretariat has prepared document TD/B/COM.3/35. The document identifies and comments on the policy questions posed by the Expert Meeting, taking into account the policy comments received from member States on the expert's recommendations. It outlines the main underlying reasons why electronic commerce should continue to be a major issue on the development agenda in UNCTAD and elsewhere. It comments on the policy questions arising from the experts' specific recommendations on electronic commerce and tourism. The comments focus on the importance of tourism to developing countries and e-commerce based strategies that they need to adopt in order to realize the opportunities that exist in this sector. Particular attention is given to the critical role of destination marketing organizations (DMOs) and information technology measures that can be taken to promote the growth and effectiveness of the DMOs. It discusses the Experts' recommendations on e-commerce in general, covering issues of infrastructure, local content, online payments, legal and policy issues, consumer protection, protection of privacy, intellectual property rights, encryption and electronic signatures. It concludes by outlining proposals for UNCTAD's future work.

Item 5 - Human resources development and training in trade-supporting services: Key to growth with special potential for LDCs

15. The Commission will examine the conclusions of the Expert Meeting on Human Resources Development and Training in Trade Supporting Services: Key to Growth with Special Potential for LDCs, held in Geneva on 13-15 December 2000. Conclusions reached by Experts cover both policy approaches and practical measures for enhancing development through HRD and training. Many of the practical measures proposed call for joint public/private action and for joint action among bodies in different countries, particularly through networking among countries facing similar situations and through partnerships among establishments of both more and less advanced countries. After considering the significance of these issues for the development process, the Commission may, therefore, wish to identify action to be taken by countries, action to be taken among countries, and further work that may be undertaken by the UNCTAD secretariat and other international bodies.

Item 6 - Provisional agenda for the sixth session of the Commission

16. The Commission will approve the provisional agenda for its sixth session on the basis of in-session documentation.

Item 7 - Other business

Item 8 - Adoption of the report of the Commission to the Trade and Development Board

17. The report of the Commission on its fifth session will be considered by the Trade and Development Board.

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29 December 2000

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TRADE AND DEVELOPMENT BOARD
Commission on Enterprise, Business Facilitation and Development
Fifth session
Geneva, 22 - 26 January 2001
Item 3 of the provisional agenda

ENHANCING THE COMPETITIVENESS OF SMES IN THE CONTEXT OF FDI IN DEVELOPING COUNTRIES

Issues paper by the UNCTAD secretariat

SUMMARY

This issues paper reviews the current mandates of UNCTAD in the area of enterprise development and internationalization. It suggests a series of topics which the Commission on Enterprise, Business Facilitation and Development might wish to take up during the next four years leading to UNCTAD XI. The four topics identified explore ways and means for Governments and international organizations to promote the survival and competitiveness of domestic firms, by targeting foreign investors who are likely to develop linkages, by use of innovative financial mechanisms, by adopting enterprise policies which are consistent with international commitments on trade and investment, and by assisting SMEs to acquire information and communication technologies to enter global markets.

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INTRODUCTION

1. UNCTAD's mandate on enterprise development originated at UNCTAD IX and was reconfirmed at UNCTAD X. The Plan of Action stated that:

> "*The survival and growth of SMEs in a globalizing world economy require the adoption at the national and international level of policies and programmes which allow them to compete both at home and abroad. At the national level, new supporting structures are needed, including programmes for entrepreneurship and innovative capacity-building and ability to meet new international standards for product quality, health and safety. A number of measures can be taken to increase SMEs' access to markets, finance, business skills and technology.*" (para. 82).

2. UNCTAD X noted that, to ensure that all countries enjoy the benefits of globalization, it is necessary to meet complex policy challenges which arise from the interdependence of trade, finance and investment. In particular, it is necessary for UNCTAD to better integrate its analysis of trade, investment, finance, technology and enterprise development in order to identify these challenges. In the area of enterprise development, UNCTAD should undertake a number of activities, including:

- Collecting and analysing data on best national practices stimulating enterprise development;
- Identifying ways and means for developing countries' SMEs to meet international standards, as well as to access and benefit from new technologies through networking and partnering;
- Analysing the links between SMEs and TNCs;
- Identifying mechanisms for financing SMEs;
- Enhancing the capacity and participation of women entrepreneurs in terms of running SMEs;
- Continuing the EMPRETEC programme to assist countries to build up entrepreneurial capabilities and innovative and competitive SMEs. (paras. 119 and 125 of the Plan of Action).

3. In responding to the recommendations of the Bangkok Plan of Action, the Commission on Enterprise, Business Facilitation and Development could through its intergovernmental discussions identify best practices and measures which would strengthen the competitiveness of SMEs in the global economy and build productive capacity in developing countries.

4. In order to assist the Commission in generating a coherent series of intergovernmental discussions that could review policy options and practical action to increase the competitiveness of SMES, the secretariat has elaborated a number of issues requiring the attention of Governments, the international community and UNCTAD. The Commission could chose among the various topics put forward. One of these topics for research, intergovernmental policy discussions and practical action is the topic of TNC-SMEs linkages.

5. In the interest of integrating the topics of investment, technology transfer and enterprise development, a round table on TNC-SME links was held in Bangkok during UNCTAD X. The main focus of the round table was on the various ways and means to deepen the quality of foreign direct investment (FDI) and the development impact of TNCs. TNCs, through their investment activities, can transfer technologies and improve the technical capabilities and the organizational and managerial skills of their business partners in host countries, enhancing the competitiveness of domestic firms.

6. Globalization and the new corporate production strategies of TNCs have opened up new opportunities for linkages between TNCs and SMEs, but the vast majority of SMEs remain de-linked from TNCs, missing these potential gains for technology transfer, access to markets, information and finance. Thus, it seemed appropriate to examine programmes and measures which could make SMEs more partnership ready in order to benefit from such linkages. The results of the secretariat research, workshop and expert meeting on this subject are summarized in this report. The Commission may wish to consider policy options to promote positive linkages arising from the Expert Meeting and explore further work in this area, particularly practical actions that can ensure that SMEs in developing countries are able to forge linkages with TNCs.

7. Other issues are put forth for the Commission's consideration as possible topics for future research and intergovernmental discussion. Some of these issues have been already identified in past expert meetings and/or are contained in the Bangkok Plan of Action. All issues are related to the central objective of increasing the competitiveness of SMEs.

Part I: Topics under consideration

8. The mandate for the Expert Meeting on the Relationships between SMEs and TNCs to Ensure the Competitiveness of SMEs, emanates from the Bangkok Plan of Action adopted at UNCTAD X. During subsequent consultations among Member States in Geneva on 31 March 2000, it was decided to convene an expert meeting on "the relationships between SMEs and TNCs to ensure the competitiveness of SMEs".

9. The documentation prepared for the Commission on Enterprise, Business Facilitation and Development includes a report on the outcome of the deliberations of the expert meeting on the relationships between SMEs and TNCs to ensure the competitiveness of SMEs, held from 27 to 29 November in Geneva. The report focuses on government and corporate programmes to promote mutually beneficial relationships between TNCs and SMEs, as well as on possible further work to be undertaken by the secretariat.

Enhancing the competitiveness of small and medium-size enterprises

10. The Expert Meeting had before it a background paper entitled "Enhancing the competitiveness of SMEs through linkages with TNCs" (TD/B/COM.3/EM.11/2). The paper reviewed various types of linkages from the point of view of their effects on the development of the local economy, particularly in terms of transfer of technology. Moreover, it highlighted best practices identified at a workshop on "Technological and managerial upgrading of SMEs through linkages with TNCs", which examined 26 Asian case studies (Penang, Malaysia on 8-9 August 2000). The Expert Meeting was enriched by 19 presentations and 35 contributed papers. Over 65 experts considered the role of government, the requirements of TNCs, and the contribution of international organizations in promoting linkages. During the presentations and discussion, the experts reviewed the various government and corporate programmes for assisting SMEs to become partnership ready. They suggested that the competitiveness of SMEs is best ensured through a set of measures which are undertaken within the context of public/private sector partnerships. Both Governments and TNCs have a role to play.

Issues raised at the Expert Meeting

11. The ability of countries and individual firms to exploit linkages varies greatly, depending on:

- The adoption of targeted foreign direct investment policies ;
- The attraction of TNCs with a corporate commitment to the development of the host country;
- The creation of public policies and support measures that assist SMEs so that they are capable of meeting the requirements of TNCs;
- The existence of SMEs which are able to meet TNC standards or at least have the potential to achieve such standards within a short learning period.

12. The UNCTAD secretariat's report observed that merely opening the door to FDI would not result in a country's economic development. As noted in the *World Investment Report 2000*, most developing countries have adopted liberal investment regimes and many have created investment promotion agencies. Yet the same 10 developing countries continue to attract the bulk of foreign direct investment inflows. Obviously, those countries that have liberalized investment policies but have not enjoyed any significant increases must refine their investment promotion strategies and identify their comparative advantages, possible niche areas and potential foreign partners. This more targeted investment strategy must be related to building the productive capacity of domestic firms. During the meeting the experts analyzed in detail the linkage programmes of a number of TNCs. These TNCs had certain characteristics in common such as a corporate commitment to the development of the local community and the host country. They often decentralized decisions to local affiliates and had a policy to hire local managers. These factors made it more likely that the affiliates would have the freedom and motivation to develop linkages with local SMEs.

13. Many experts felt that government can act as a catalyst for linkages by improving physical and educational infrastructure, particularly for the development of engineering and management skills. Government, working together with the private sector, could create support institutions (e.g. skills training centres) that facilitate the transfer of technology and provide appropriate skills training, thereby helping SMEs achieve the capability for continuous improvement. It was important for TNCs to assume a leadership role in these institutions to ensure that programmes, particularly for skills development, met their needs. In addition, Governments often facilitated such positive interactions by providing appropriate economic incentives to both TNCs and SMEs.

14. The experts noted that some TNCs had very elaborate programmes to upgrade local suppliers such as Intel's "SMART" approach while other TNCs had not yet realized that remaining competitive depended on those around them also being competitive. It was clear that globalization had changed the nature of TNC production and outsourcing networks. TNCs needed SMEs to implement their global strategies which depended on flexibility, total cost and speed. The good news for SMEs was that TNCs did not expect SMEs to meet their quality requirements immediately. During the Expert Meeting TNCs described what they looked for in an SME partner:

- Vision of the CEO
- Willingness to learn and to transform

- Sound financial management
- Quality of human resources
- Technical capability corresponding to TNCs needs
- Competitiveness potential (safety, quality, delivery, price).

15. Within the context of their supplier development programmes, TNCs undertook a phased upgrading of SME technological and productive capacities by facilitating access to TNC innovation centres and engineers and management consultants; assigning TNC staff to SMEs, mentoring and coaching their SME partners. TNCs also shared with SMEs relevant information on market trends and future plans so that SMEs could change direction with the TNCs. Most importantly, TNCs encouraged SMEs not to become overly dependent on them and provided them with additional business opportunities within their global network or through business matching, brokering of strategic alliances, trade fairs and road shows.

Areas for consideration and further action

16. There appear to be several levels where further action might be taken by UNCTAD. Firstly, in order to assist Governments to select policies and measures that insure TNCs are more likely to build linkages with the local economy, there is a need for a systematic country review to identify the various policies and incentives used by Governments to promote linkages. During the Expert Meeting it was thought that further study was necessary on the impact of economic incentives on linkages.

17. Experts were concerned that most of the examples of successful linkages came from Asia and they questioned how these experiences could be replicated in other regions. It was suggested that UNCTAD could conduct similar workshops to that held in Penang where TNCs and SMEs were brought together to exchange experiences on best practices. The experts were particularly interested in disseminating information so that positive supply chain development could be replicated elsewhere. However, it would be important to identify the starting point for developing such linkages in these regions. This would no doubt require the implementation of appropriate investment and enterprise policies and support measures. UNCTAD could also incorporate best practices so far identified into its technical cooperation programmes, particularly those practices that make SMEs more partnership ready.

Part II: Other topics requiring attention

A. Recent developments in innovative mechanisms for financing SMEs

18. The number one problem revealed by numerous surveys of SME entrepreneurs is access to finance. Despite their vast numbers and importance in job creation, SMEs traditionally have had difficulty accessing formal credit and equity. The key reasons for this are well-known:

- SMEs are regarded by creditors and investors as high-risk due to insufficient assets and low capitalization, vulnerability to market conditions and high mortality rates;

- Commercial banks are biased toward large corporate borrowers;
- Information asymmetry arising from SMEs' lack of accounting records and other financial documentation makes it difficult for creditors and investors to assess the creditworthiness of potential SME borrowers;
- The high administrative cost of lending/investing small amounts generally does not make SME lending/investing a profitable business.

Past solutions in the banking sector

19. The key problems which must be solved if long-term capital is to be made available are the provision of acceptable collateral or other mechanisms and the lowering of administrative/transactions costs. Many Governments and international financial institutions have organized programmes for subsidized credit and guarantees for SMEs. Recent experience with subsidized credit/guarantees reveals a number of drawbacks such as:

- Fostering a culture of non-repayment;
- Competing with commercial credit;
- Not being used for the intended purpose;
- Failing to reach the target group;
- Being disbursement oriented;
- Failing to achieve financial self-sustainability.

20. The most efficient way to encourage the development of SME loan capital is to improve existing financial institutions' ability to construct profitable SME lending programmes. The way to achieve this is by minimizing their risks and lowering their costs of lending to SMEs.

Ways to diminish risk

21. Financial institutions need to design, new, more flexible forms of collateral, especially for SMEs which have few fixed assets. More time could be spent analysing the firm's cash flow statement than its balance sheet. This would indicate the firm's ability to repay in the future. Banks need to focus more on the firm's track record. Financial institutions could also substitute other mechanisms for collateral such as group guarantees and peer pressure. Financial institutions could rely on business and business service providers to pre-screen/do due diligence on SME clients, thus reducing the bank's cost and risk.

Other ways to diminish transaction costs

22. A number of recent studies cite the limited technical capacity commercial banks have for credit evaluation of SMEs. Bank personnel therefore, need training in assessment methodologies which are easy and effective. More use needs to be made of the new automated systems for making credit decisions and monitoring the bank's portfolio such as credit rating, credit scoring and expense tracking. Technology can greatly extend a bank's reach with simple, standardized products. Recently, commercial banks in some developed countries have begun to offer a variety of products and services especially addressed to SMEs such as direct-mail offers of credit lines, business credit cards, and non-revolving lines of credit for business, most of which have a credit limit of US$100,000. Loans can be secured or unsecured, and if secured, banks may accept assets such as stocks and bonds, certificates of deposit, accounts receivable, inventory and equipment. Banks need to work out cross subsidization techniques which will allow them to

serve the entire spectrum of clients from marginal ones to well-paying ones. Credit information systems or external rating systems need to be developed to assist banks in making their decisions. SMEs themselves must present reliable and transparent financial information using a standardized reporting mechanism. Both banks and SMEs alike complain about the different ways of presenting financial information; a guideline on accounting by SMEs could improve the quality of financial information while cutting costs to users and preparers.

Other forms of providing finance or facilitating it: venture capital and leasing

23. SMEs need not only commercial credit but also longer-term finance such as venture capital funds. Bank credit is a very expensive way to finance companies in their first growth stage. Venture capital is more appropriate for several reasons. First, venture capital funds provide flexible, long-term equity capital which is customized according to the unique needs of each enterprise. It is patient capital in that it is available for more than one year. Second, it can often leverage loan capital. Third, fund managers often participate in the operation and administration of the enterprise, bringing their expertise. Working with the SME owner/managers can improve the efficiency of the firm. However, venture capital funds for SMEs must overcome many obstacles in order to realize the high returns that the investors demand. Among the factors which can seriously lower rates of return are small deal flow and deal size, the need for extensive business development services, and the difficulty in exiting when there is no stock market and/or few strategic investors. In this case the most likely exit route is a sell-back, and then the entire transaction begins to look more like loan finance. If a venture capital fund for SMEs is to succeed, it must have local staff who can work closely with the investee firm. Venture capitalists or their employees meet regularly with management and take positions on the boards of directors (when they exist). However, the local venture capital staff can usually not provide all the follow-up that SMEs might need and then it is important to identify local institutions which can provide the needed non-financial business services that SMEs often require.

24. Leasing can be used by mature SMEs in order to cut investment in fixed assets, particularly in sectors characterized by rapid rates of technological innovation. However, unlike venture capital, the SME must meet its lease payment or risk losing its equipment and ability to produce or provide services to its customers. Sometimes lease payments can be more expensive than bank charges.

25. Once the most suitable approaches to SME financing have been identified, financial institutions in developing countries should be assisted in implementing them through capacity building.

Areas for consideration and further action

26. The Commission might consider organizing an expert meeting which could discuss:

- Recent developments in innovative financing mechanisms and when they are appropriate for use by SMEs, depending on where the SME is in its life cycle;
- How banks in developing countries and countries with economies in transition can be encouraged to use these mechanisms;
- How venture capital funds can be organized for SMEs and how the obstacles to high returns can be minimized;

- How non-financial services should be combined with financial services in order to ensure repayment or maximize returns;
- To what extent these non-financial services would have to be subsidized;
- Ways and means to disseminate such techniques to financial institutions in developing countries.

B. Policy coherence and international commitments

27. The benefits of trade reform and liberalization are generally predicated upon the existence of a private sector (with a diversified manufacturing segment). In most developing countries and LDCs, the private sector remains narrow and weak. They lack the indigenous entrepreneurs (with the requisite capital) to pursue private-sector-led development. FDI has not been and cannot be the solution, chiefly because its developmental role is to catalyse domestic investment and capabilities rather than replace it.

28. SMEs are an integral part of all LDC economies, but many of these countries have overlooked the role of SMEs as an engine for economic development. The focus on poverty alleviation to mitigate negative social impacts of structural adjustment put the spotlight on the social benefits of SMEs, particularly in respect to the generation of low-capital-cost employment. The opportunities provided by the WTO system do not address the supply-side constraints in these economies, so that the issue of policy support and flexibility for SME development continues to be of importance.

29. In the final analysis, what is indisputable is that integration into the global economy and accessing the benefits from globalization presupposes that a platform for industry already exists.

30. It has been suggested that the adoption by developing countries of selective strategies to promote enterprise development and exports may no longer be possible as a result of the Uruguay Round, which prohibited their use. Certainly, the more generalized protection that provided a backdrop for targeted interventions in East Asia is no longer possible. In developing countries, Governments still have a large role to play in promoting economic growth and development. Many vital activities of the developing countries' Governments in the field of enterprise development and export promotion and diversification may therefore easily become a source of litigation and 'actionable' subsidies.

31. However, a counter-argument is that the new WTO rules give ample opportunity for countries to promote their manufacturing sectors. This assertion is based on the fact that WTO laws are in favour of advancing science and technology, and technologically advanced countries continue to promote their industrial competitiveness by subsidizing research and development, regional development and environmental protection.[1] In addition, firms can benefit from special incentives offered for locating in 'science parks' and industrial estates. Furthermore, WTO law is not inflexible with respect to tariffs (besides, many developing countries and LDCs bound their tariffs at rates far above applied ones). Moreover, safeguards and other measures allow countries to protect specific industries threatened by a surge in imports (for up to eight years) and to protect against all imports if they are at a level which jeopardizes their balance of payments (for an indeterminate period). Based on all the above, it is argued that there is no shortage of methods

[1] Such subsidies are all permitted by the WTO.

that can be used by less industrialized countries to promote their industries under the new WTO laws.

32. Accordingly, the situation may not be as hopeless as initially thought. Then again, this considerable scope for manoeuvre is dependent on the skillful use of the various 'permissible' subsidies, balance-of-payments clauses and non-trade-related measures, as well as creative interpretation of the new international trading rules. It would seem that the major challenge facing developing countries and LDCs is their ability to creatively and effectively deploy the available instruments for enterprise development and international competitiveness. Failure to do so will render the opportunities offered by the new trading system merely notional.

33. Similarly, coherence needs to be achieved between the rules and disciplines of other international or bilateral agreements (e.g. agreements under the ISO, Montreal Protocol on Ozone Depleting Substances, Framework Convention for Climate Change, Convention on Biological Diversity, Convention on International Trade in Endangered Species, Basle Convention on Hazardous Wastes, and investment treaties) and national enterprise development strategies and goals. The basic thrust of the rules and disciplines of these agreements (which may or may not overlap with the WTO) is that they create additional standards and technical or quality requirements (including limits on government support) that are not easy for SMEs in developing countries and LDCs to meet.

Areas for consideration and further action

34. Developing country Governments need to take account of the limitations imposed by international trade disciplines on domestic enterprise development policies and adjust accordingly. They also need to do so promptly in order to take advantage of whatever timebound differential or preferential treatment that they are accorded by international agreements. The objective of an expert meeting on this subject would be to assist developing countries to achieve coherence between their national policy framework for enterprise development and their obligations emanating from binding international agreements. The objective would also be to present examples of alternative measures to those outlawed by the new trade regime which will fulfil the development aims of domestic enterprise policies. Such a meeting would also be useful to developing countries in terms of helping them to identify domestic institutional and capacity constraints and technical assistance needs in policy design and implementation. This expert meeting could be organized jointly with the WTO.

35. A secretariat study on the interaction between trade and enterprise development policies is available, and from this study it will be possible to extract a negative/positive list of methods that can be used by less industrialized countries to promote their industries under the new WTO laws. Work has also been done in other parts of the secretariat on various aspects of WTO laws and on investment treaties. This could be supplemented by selected case studies on innovative ways that developing and developed countries have employed available instruments to support SME development in the new trading environment.

C. Transfer of technology: bridging the digital divide for SMEs

36. In his recent Millennium Report, UN Secretary-General Kofi Annan focused on the fundamental changes occurring in the information and communications industries (ICT) at near-lightening speed. "*It took 38 years for radio to reach 50 million people, 13 years for television*

and 4 years for Internet. 143 million people logged on to the Internet in 1998; by 2001 the number of users will climb to 700 million. The market for e-commerce was $2.6 billion in 1996; it is expected to grow to $300 billion by 2002."

37. The Secretary-General also noted that the digital divide is growing between developed and developing countries. There are more computers in the United States than in the rest of the world combined. There are as many telephones in Tokyo as in all of Africa. But if the gap can be bridged, the digital revolution can stimulate economic growth and development. *First*, it creates new economic sectors. *Second*, the capital that matters most in the digital revolution is increasingly intellectual capital, not financial capital.

38. *Third*, the digital revolution can transform and enhance other economic activities. For example, e-commerce including B2C and B2B will transform the way business is conducted. There are many opportunities for telemedicine and distance learning; for virtual banking; for checking weather forecasts before planting and crop prices before harvesting; and for accessing the world's largest library. The information technology sector, in short, can transform many if not most other sectors of economic and social activity.

39. Bridging the gap will not be easy for developing countries. Lack of resources and skills is part of the problem, inadequate basic infrastructure another, illiteracy and language a third, and of course, there are concerns about privacy and content.

40. The Secretary-General called upon countries to review their ICT policies and arrangements in order to eliminate all unsupportive regulatory environments and exorbitant charges. He also announced a digital bridge, the United Nations Information Technology Service (UNITeS), which is a consortium of high-tech volunteers who will work with developing country partners to strengthen capacities for applying ICT to human development, in particular in areas such as health, education, environment and small and micro enterprises.

41. Prior to this, the Commission on Science and Technology for Development considered the issue of the implications of information and communication technologies for development during its third session (May 1997). The Working Group established by the Commission concluded that, although the costs of building national information infrastructures and joining the global information infrastructure were high, the costs of not doing so were likely to be much higher.

42. For this reason the Working Group recommended that each country establish a national ICT strategy. While it judged that there are no "best practice" models for these strategies or one single technological pathway because of different national starting points, there is a common need to build new coalitions of resources to enable the business sector to play an increasing role in all aspects of ICT development. Likewise, the Secretary-General has suggested that public-private sector partnerships are necessary to bridge the divide.

43. In July 2000, the Economic and Social Council conducted a high-level segment on the role of information technology and issued a ministerial declaration on the subject. The ministers were also deeply concerned that, at present, ICT's huge potential for advancing development has not been fully captured. This reality gave rise to manifestations of the "digital divide". In this regard, the ministers thought urgent and concerted actions at the national, regional and international levels were imperative for bridging the digital divide and building digital opportunities. They recognized the major impediments such as lack of infrastructure, education,

capacity-building, investment and connectivity. The ministers echoed the need for national development strategies and national focal points. In particular it recommended national programmes which would:

- Promote access to ICT for all by supporting the provision of public access points;
- Bring down connectivity costs;
- Promote investment in the ICT sector.

44. It is relevant to the work of the Commission that the ministers called upon the international community *"to explore and define ways and means to strengthen the use of ICT in small and medium-sized enterprises in developing countries and countries with economies in transition as these enterprises constitute a major source of employment, and also to enhance their competitiveness in the emerging global economy."*

Areas for consideration and further action

45. The Commission may wish to devote its attention to the issue of promoting ICT among SMEs in developing countries. IT presents both opportunities and challenges for SMEs. First, the opportunities: IT offers considerable opportunities to SMEs to expand their customer base, enter new product markets, even global ones, and rationalize their business. Second, the challenges that SMEs will face in the future due to rapid IT developments are considerable. The internal barriers to SME adoption of e-commerce include limited understanding of the complexity of electronic operations, inadequate skills and high initial investment required to develop a viable e-commerce strategy. The external barriers include infrastructure access and costs. SMEs are also more vulnerable than larger firms to problems linked to authentication and certification, data security and confidentiality.

46. Practical measures need to be considered to assist SMEs to enter e-business, including special support services and public-private partnerships. In its previous considerations of e-commerce, the Commission has already covered the issues of human resources development and appropriate regulatory and legal instruments and identifying its trade policy implications and macroeconomic impact.

47. The Commission may wish to convene an expert meeting on special support services for SMEs that could be offered through existing UNCTAD programmes and in cooperation with other UN agencies and international organizations which are involved in the UN effort to bridge the digital divide, such as UNV and ITU and other appropriate entities. Such consideration might allow the Commission to identify ways and means in which the Commission could contribute to a comprehensive programme of action to be carried out through global ICT partnerships, as called for in the report of the Secretary General (E/2000/52, *"Development of international cooperation in the XXI century: the role of information technology in the context of a knowledge-based economy.")*

Other matters

48. In choosing among the various topics, the Commission may wish to evaluate which ones could be done within tight deadlines with existing secretariat resources and which lend themselves to collaboration with other agencies.

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CAPACITY-BUILDING IN ELECTRONIC COMMERCE: IMPACT OF THE NEW ECONOMY ON TRADITIONAL SECTORS OF DEVELOPING COUNTRIES: ELECTRONIC COMMERCE AND TOURISM

Note by the UNCTAD secretariat

I. INTRODUCTION

1. This note was prepared pursuant to paragraph 170 of the UNCTAD X Plan of Action (TD/386) which welcomed the document prepared by the UNCTAD secretariat entitled "improving the functioning and structure of the intergovernmental machinery of UNCTAD". In line with paragraph 6(a) of the secretariat document, this note identifies, and comments on, the policy questions posed by the Expert Meeting on Electronic Commerce and Tourism. First, taking into account the discussions by the Experts and the outcome of the Meeting, it outlines the main underlying reasons why electronic commerce should continue to be a major issue on the development agenda in UNCTAD and elsewhere. It then focuses on specific policy questions in e-tourism and e-commerce in general. In so doing, account is taken of the Experts' view that solutions to e-commerce in tourism need to address the wider policy questions of e-commerce in general.

II. ELECTRONIC COMMERCE AS A MAJOR ISSUE FOR DEVELOPMENT

2. E-commerce has had considerable economic impact on enterprises. Evidence for this is found in developed countries where e-commerce is becoming a common means of trading in many sectors. It is predicted that, in the next three years, the value of global e-commerce could reach as high as 10 per cent of the value of total world trade. Available information shows a considerable increase in Internet connectivity among individuals and enterprises around the world. There has also been a considerable expansion in the development of new products and Internet-based

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business activities such as Internet marketplaces that link buyers and sellers on a global scale. The full value of the Internet and e-commerce, though, goes beyond the pure exchange of goods and services. It also brings large improvements in back-end production systems, internal management of enterprises and supply chain management and improvements in workers' skills and productivity, as well as reducing requirements in respect of working capital and physical infrastructure. It further results in profound improvements in business relationships between enterprises.

3. The observed benefits of e-commerce to developed countries should be regarded as an important indication of the potential opportunities that e-commerce can offer to developing countries. As e-commerce continues to increase its share of total world trade, its impact on development must continue to attract the attention of developing countries. The current low level of participation in e-commerce by developing countries cannot be attributed to the lack of benefits of e-commerce for those countries, but rather it has more to do with the special constraints that developing countries are facing in this area, including lack of awareness, the high cost of connectivity, lack of infrastructure, legal issues, security problems, and so on. It is therefore imperative that e-commerce should be placed high on the development agenda in order to overcome these constraints. Apart from these observations, there are a number of reasons, as outlined below, why the development debate should place even greater emphasis on the need for developing countries to increase their participation in e-commerce.

4. SMEs play a strategic role in developing countries in terms of employment, investment and total output. However, they normally lack the resources and capacity needed to compete internationally and expand their market opportunities. E-commerce provides special opportunities to them because it involves relatively cheap and easily transferable technology, as well as low market entry barriers. Thus SMEs get a fair chance to compete in global markets with bigger players in developed countries.

5. E-commerce is a key element of globalization of the world economy and markets. Largely due to globalization, many enterprises in developing countries have become integral parts of global supply chains, especially in business-to-business transactions. Thus enterprises in developed countries that embrace e-commerce are likely to induce developing country enterprises to adopt new information technologies. An example of this is the growing importance of outsourcing of intermediate goods and services. Faced with global competition, many enterprises in developed countries are resorting to outsourcing of products and services, especially to low-wage countries. However, outsourcing requires efficient communication, rapid exchange of information and computers that can facilitate the quick monitoring of product design, development and quality. Consequently, developing countries require "e-competence" in order to benefit from the opportunities offered by product and service outsourcing.

6. The urge for developing countries to increase participation in e-commerce should take into account the fact that enterprises in these countries are already engaged in e-commerce, especially in business-to-business transactions in services industries. These include transactions in manufacturing, procurement, distribution, financial services and the development of information systems. The size and role of these transactions may not be fully documented because of the lack of data and definitional ambiguities about what constitutes e-commerce.

7. Despite existing infrastructure and other constraints, developing countries should be encouraged to participate in e-commerce because of prospects for "leap-frog" technologies such as cell phones and interactive television that may help them to bypass existing obstacles.

8. Enterprises in developing countries will incur large costs if they do not participate in e-commerce. A number of historical examples in other technological revolutions have shown that countries that lagged behind in adopting the new technologies suffered considerable economic losses. This was clearly the case, for example, in the "container revolution" in maritime transport in the 1960s and 1970s when developing countries that did not provide appropriate container handling facilities experienced large increases in their transport costs. In this connection, the existing low participation by developing countries in e-commerce should not be allowed to continue and develop into a situation where the international digital divide reaches crisis proportions.

9. The result of not participating in e-commerce is the loss of competitiveness and trading opportunities. Around the world, the Internet is increasingly becoming a source of product information for buyers and sellers, and enterprises that are not on the web may lose a large number of customers that rely on the Internet to search for products. An example of this is tourism, where most tourists from the origin countries that generate the largest numbers of tourists travelling to developing countries use the Internet as a source of destination information. It is evident that destination countries that do not embrace the Internet and e-commerce stand to lose substantial numbers of potential tourists. In the same vein, due to its global reach, e-commerce offers great opportunities for marketing non-traditional exports from developing countries. Such exports would take a very long time to make their presence felt in global markets if they were marketed through traditional channels alone.

III. POLICY QUESTIONS FOR CONSIDERATION BY THE COMMISSION

10. The Expert Meeting made a number of recommendations to Governments and enterprises in order to increase the participation of developing countries and countries in transition in electronic commerce, especially as regards tourism services.

11. In the view of the Experts, it is not possible to develop e-tourism without an overall business environment favourable to the growth of e-commerce. In line with this view, the rest of this note first comments on the policy questions posed by the experts, which are directly related to the tourism industry, and then discusses the general tenets of the e-commerce policies and strategies that the experts identified as critical for the promotion of e-commerce. Finally, it outlines proposals for UNCTAD's future work in accordance with the outcome of the Expert Meeting.

A. Policy questions for consideration by the Commission in formulating recommendations specific to e-tourism

12. Developing countries enjoy a very strong position in the market for tourism services, accounting for 15 per cent of international tourism receipts, or US$ 63 billion. In addition, the sector is in a very dynamic phase of development, as more people will travel more frequently to more destinations and will want more diverse travel experiences. The growth will be particularly

vibrant in the e-tourism sector, with projections for 2003 indicating a 2½ fold increase in online bookings in comparison with the year 2000. For developing countries, the tourism industry can thus offer tremendous growth opportunities, especially as new technologies, like the advent of wireless Internet and low earth orbiting satellites, offer opportunities for leapfrogging into e-commerce.

13. In order to seize these opportunities, the development of "destination management" for the promotion of e-tourism is vital. This strategy should be based upon available, and as necessary, additional research on market trends, consumer needs, web site use, demographic profiles, etc., of actual and potential consumers.

14. The key element of destination management should be a partnership involving central and local government, local communities and all parties involved in the provision of tourism services. Specifically, these would be: governmental and non-governmental tourism promotion agencies; destination management organisations (DMOs); local and international tourism service providers; domestic and international travel agents; global distribution systems (GDSs); travel portals; and the information and communication technology (ICT) sector.

15. In order to establish and maintain partnership and cohesion in an otherwise fiercely competitive business environment, new technologies might be a key element of success. Importantly, the digital revolution represents a challenge that no player in the industry can meet on its own, considering the high costs not only of developing and maintaining but especially of promoting and marketing a web site. Competitors will thus need to cooperate to build and enhance a destination brand image, while at the same time competing head-on in the same market.

16. The experts, representing the tourism industry in all its different facets, shared their different experiences and highlighted *inter alia* the points set out below, which are supported by the evidence from the field and in the literature.

17. Destination management should aim at promoting tourism that is sustainable in a social, cultural, environmental and economic sense. Managing a destination, as opposed to simply marketing it, means sustaining the resources and environment that make the destination what it is, both at present and for the future. An essential part of this strategy would be to increase the retention of tourism revenues in developing countries, which was estimated to be as low as 30 per cent in some cases. The Internet might help increase such revenue retention by cutting out intermediaries that do not necessarily add value to the product.

18. The role of the DMOs will be of essential importance for the success of national and local e-tourism strategies. DMOs, as organizations that are dedicated to a specific destination, have a function that is inherently different from that of tourism intermediaries without a dedicated destination focus. Their key functions will consist in: building a global brand for the destination as well as credibility and trust among consumers; developing public relations activities; and serving as an online tourism information center, in particular by promoting the destination in key tourism portals, search engines and gateways. Establishing a national portal might be an essential part of this strategy.

19. DMOs will be called upon to coordinate the relevant public and private actors and to be representative of relevant stakeholders at the local level. Clearly, there can be no single strategy for all DMOs, and it is necessary to explore as many alternatives as possible. In some instances, DMOs could assist in developing consistency across e-commerce platforms used by tourism producers. In addition, depending on local conditions, they could also deliver e-services directly, through an in-house e-commerce application that would connect the tourism industry members. Finally, a potential role would be spreading awareness and providing technical training for their affiliates or negotiating with banks and financial operators to reduce banking costs for online payments.

20. In collaboration with the private sector, DMOs could also develop special-interest tourism, for example eco-tourism and cultural tourism that could be particularly well suited for marketing on the web.

21. In order to be effective, DMOs must be institutionally established and provided with the necessary human, financial and logistical resources. Ultimately, this would require capacity building for DMOs in terms not only of technical training but also of provision of the necessary technical and financial resources. In the view of the modest budgets available for tourism promotion, various solutions could be experimented with, including the development of regional or subregional portals, at least partially financed by commissions on actual sales, and international cooperation by specialized agencies such as the World Tourism Organisation and UNCTAD.

22. In addition to efforts to increase presence on the web, it would also be crucial for developing countries to develop physical tourist attractions and support services such as banking, insurance, transport and customs.

23. Traditional travel agents and other intermediaries should transform themselves by adopting new information technologies and enhancing their expertise and creativity, so as to improve their efficiency and ensure their continuity. At the same time, maintaining contact, whether virtual or physical, with the end client remains important, because technology cannot replace human expertise. The options that exist for travel agents are therefore very varied, ranging from maintaining a physical presence to going entirely digital, thus becoming *de facto* tourism portals. In any case, the specific solution chosen should give due regard to the specific situation of each country. Since in many countries not all tourism suppliers will be ready for on-line transactions, travel agents' strategies could include local call centres, off-line transaction support, setting up multimedia kiosks in physical retail centres and providing a combined virtual/real option to the customer for final booking and payment.

24. At the international level, Governments were encouraged to make joint efforts to ascertain whether the international e-tourism market is working in a way that does not promote unfair or anti-competitive practices constituting barriers to the tourist industry for developing countries.

B. Policy questions for consideration by the Commission in formulating recommendations on e-commerce in general

25. As observed earlier, the experts were of the view that solutions for e-commerce in tourism should also address broader issues of e-commerce in general and their effects and benefits for development. In this context the experts made a range of recommendations regarding the different facets of e-commerce that the Commission may wish to consider.

1. Infrastructure

26. In the framework of policy measures to support the development of e-commerce in developing countries, particular attention should be given to improving Internet access and telecommunications infrastructure.

27. The evidence gathered by the UNCTAD secretariat and presented in the *Building Confidence* report (UNCTAD/SDTE/Misc.11) shows that the information and communication infrastructure required for e-commerce is still scarce in many developing countries, and telecom and Internet access is generally more expensive in developing countries in absolute terms. These differences are even more relevant when account is taken of the differences in revenue per capita.

28. Among the underlying causes for this is the lack of backbone capacity between countries in the form of fibre-optic cable or satellite linkages. Usually public telecom operators (PTOs) operate the international gateway or access to the national backbone, and leave the resale of end-user Internet access to the private sector. In a few countries the PTO operates an international gateway in competition with the private sector. In both cases, Internet service providers (ISPs) are often forced to consolidate all of their traffic over a single high-cost international circuit, and Internet traffic within a developing country region is provided by, and paid for to, United States or European service providers. Furthermore, developing country ISPs must bear the entire cost of the connection to Europe or the United States, which effectively gives the ISPs in developed countries free access to their network. In addition, and perhaps of more immediate significance for e-commerce, the lack of multiple links means that reliability is compromised, as there is no alternate route when the only international link goes down.

29. Another factor behind the insufficient telecommunication services and their high cost is that, until recently, these services were largely in the hands of state monopolies. State-owned telecom operators often do not have sufficient resources to expand or improve the network or to provide the advanced services that are now required. However, for a number of Governments direct revenues from the telecommunications sector are still an important part of the general revenue base, so privatization needs to be planned and implemented with care.

30. In practice, monopolies have all but ended in most countries, largely due to the licensing of mobile operators, which have rapidly become competitors to the fixed network as alternate primary providers of voice telecom services. As cellular/mobile tariffs are usually much higher than in the fixed networks, they cannot yet provide low-cost communications for the general public. Nevertheless, the lack of telephone lines and poor public ICT infrastructure – as well as falling

prices for mobile connections following their liberalization – have led to a strong growth of cellular telephony.

31. The privatization and liberalization of the national telecom sector is a necessary but minimal requirement. Investments are necessary to improve circuit capacity and bandwidth in order to drive access prices down. For this, private sector involvement and competition should be encouraged. An important development in this respect is that recent technical developments have made information and telecommunication infrastructure more affordable. In particular, network infrastructure rollout and usage costs have already plummeted, and will continue to do so for the foreseeable future. This will be aided by the exploding quantities of fibre, wireless and satellite bandwidth that can make rural areas as easy to reach as urban ones.

32. ISP subscription fees are also a contributing barrier to Internet access. Countries with larger numbers of ISPs generally have lower Internet charges, and in general it has been observed that prices have dropped and service quality has improved whenever competition has been introduced into the market.

33. Another positive development has been a rapid growth of private phone shops in some countries in response to the high costs of having a private telephone. Phone shops provide telephone services to the public where there are no public telephones or where private phone lines are not available or affordable. Similarly, there is also a rapidly growing interest in kiosks, cybercafés and other forms of public Internet access usually called telecentres, whereby computers with Internet access are installed in community phone-shops, schools, police stations and clinics. The concept has received considerable support from the ITU and other members of the international community, as well as a number of national Governments and public telecom operators. The telecentre approach may be one of the most important means of providing access to advanced services in rural areas, but further study and awareness-raising are needed to determine the most appropriate models.

2. Local content

34. The Expert Meeting stressed the importance of developing local content on the Internet in local languages and the languages of the most important tourism consumers.

35. In this respect, it should be noted that the availability of local content has an important effect on the generation of both local and international Internet traffic and is therefore directly connected to Internet penetration and the readiness of investors to install capacity.

36. Governments could play an important role in building awareness within the business community of the efficiency gains to be had by adopting the Internet as an administrative and business environment.

3. Online payments

37. As e-commerce expands, there will be increased demand for online payments. The demand for such payments comes from suppliers trying to sell their products and services online, as well

as from consumers seeking secure online payment opportunities. At the Expert Meeting, the Experts discussed problems of on-line payments, especially regarding their non-availability in developing countries, their high cost and the difficulties of ensuring security. The Experts recommended to Governments and enterprises that they review available research and conduct additional research, when necessary, on the impact of the non-availability of on-line payments and other information that may support the development of a sustainable tourism industry. They also recommended that UNCTAD carry out case studies and analysis of e-commerce in tourism, including problems of on-line payments.

38. Currently, while traditional off-line payments continue to be used in e-commerce transactions, on-line payment systems are growing. These payments, however, entail some risks and users are concerned about the security of digital transfers of sensitive information via the Internet. In response, a number of security and encryption systems have been developed to improve security.

39. Alongside the development of encryption techniques, a wide range of new on-line payment systems are also being created. The range of these systems includes credit-card-based systems, electronic cheques, electronic cash payment systems and micro-payment systems used for pricing micro-products.

40. The existence of a large number of payment systems poses problems in that there is no universally accepted standard for on-line payments. Moreover the multiplicity of payments systems suggests that they are in their infant stage as far as their security and reliability are concerned. However, the payments systems developed by leading banks in cooperation with major technology firms are currently servicing the bulk of on-line payments. At the same time, though, there is still a need to establish compatible, interoperable systems of international standards that can be used in different parts of the world.

41. While e-commerce transaction in developing countries can continue to rely on off-line payments, as the volume of e-commerce expands the development of on-line payments will become a pressing issue. Banks and financial services companies in the developing countries will need to adopt payment systems and practices that will meet their clients' new needs arising from a shift to on-line business. They will need to adopt systems that address the key issues of concern to users, namely security, confidentiality, identification of sellers and buyers, verification of buyers' solvency and guarantee of delivery. Similarly, regulatory authorities will need to provide the necessary supportive measures to ensure that acceptable system standards are established and maintained.

4. Legal and policy infrastructure and consumer protection

42. There exists a need to establish appropriate laws and regulations and service standards in order to build trust and consumer confidence and to ensure privacy and the protection of consumers and intellectual property rights. It is also essential to promote cooperation in setting up an international framework to protect travellers conducting transactions on the Internet. Furthermore, UNCTAD, in co-operation with other appropriate bodies, should carry out case

studies and analysis on issues such as encryption and electronic certificates or signatures, and develop capacity building through training and basic education in relevant fields.

43. In a number of meetings and intergovernmental debates held under UNCTAD auspices, the need for a legal and policy infrastructure that is supportive of and conducive to the practice of electronic commerce was identified as one of the prerequisites for the growth of electronic commerce. The existence of a predictable and supportive legal framework has likewise been singled out on a number of occasions as an essential tool to enhance the much-needed level of trust of both businesses and consumers in commercial transactions. This element of trust is particularly important in the field of tourism due to the inherent characteristics of e-commerce, such as the ease and speed with which businesses and consumers can communicate and engage in cross-border transactions. Limited or non-existent face-to-face contact between tourism service providers, travel agents and other intermediaries and travelers using these services increases the need for a predictable and trustworthy electronic marketplace. It is in this context that consumer protection constitutes an important dimension in the tourism industry, since it includes all the stages of the business-to-consumer commercial relationship, including commercial communications on services (advertising, promotion and marketing), (pre)contractual information and disclosure, contract formation, payment, delivery, guarantee and ultimately affordable dispute resolution and redress. Whilst the legal systems of many countries provide added protection for consumers against fraud and unfair or deceptive acts or practices by unscrupulous merchants, the relative anonymity and geographical distance of parties in e-tourism and e-commerce in general heighten the potential for such problems and the need for appropriate action. To ensure that the principles underlying existing rules provide an equivalent level of protection in the on-line environment and that consumers enjoy transparent and effective protection, Governments need to determine whether current rules and practices are applicable and sufficient to protect consumers on-line, including travelers, or whether a new set of rules or self-regulatory means might be needed. In this effort, due regard must be given to the global nature of the marketplace and the desirability of adopting a global approach to consumer protection issues without unduly inhibiting the growth and development of e-commerce in general and e-tourism in particular.

5. Protection of privacy

44. Other problems identified by the Expert Meeting refer to the need to ensure privacy. The right to privacy has been recognized in most countries as a fundamental human right since the adoption of the Universal Declaration of Human Rights in 1948 by the General Assembly of the United Nations (Article 12). To make the right to privacy enforceable, many countries have created treaties and agreements on a regional level, and more recently they have adopted legislation and/or self-regulation mechanisms to protect individuals against the misuse of personal data. Since virtually every e-commerce transaction involves the transfer of personal data, such as an individual's name, address and credit card number, personal data may be routed via countries with little or no data protection legislation. A number of different approaches to data protection - from comprehensive regulation to sectoral and self regulation and co-regulation - have been adopted in order to obtain adequate protection. In determining adequacy, it is necessary to consider not only the content of rules applicable to personal data, but also the procedural mechanisms in place to ensure their proper application. It is suggested in this regard that a model

for data protection might be a valuable tool to facilitate a global solution to the trans-border flow of personal data.

6. Intellectual property rights

45. Concerning intellectual property protection, although intellectual property creation and enforcement are fundamentally territorial in nature, intellectual property rights have also always had an international dimension because of the borderless and intangible characteristics of the flow of information. The emergence of the Internet has greatly increased the speed and efficiency of transnational information exchanges, and enabled greater exchanges of patented ideas and copyrighted works, both authorized and unauthorized in nature. The Internet also facilitates international reach and exposure for even small, formerly local companies, which makes the source-identifying function of trademarks crucially important. A critically important area in this field is the relationship between "domain names" – easy-to-remember, human-friendly names associated with Internet locations – and trademarks. The conflict between domain names and intellectual property rights has led the World Intellectual Property Organization (WIPO) to make a number of recommendations to the Internet Corporation for Assigned Names and Numbers (ICANN) on certain questions arising out of the interface between domain names and intellectual property rights. The recommendations dealt with the adoption of a number of improved standards practices for registration authorities, dispute resolution policy concerning abusive domain name registrations; exclusion for famous and well-known marks, and conditions for introducing new generic top-level domains. The goal of the evolving legal principles and standard practices in this area should be the protection of intellectual property rights without impeding the growth of e-commerce.

7. Encryption and electronic signatures

46. As regards encryption and electronic certificates or signatures, there seems to be consensus that a mechanism for secure authentication of electronic communication is critical to the development of electronic commerce. These mechanisms must provide for confidentiality, authentication (enabling each party in a transaction to ascertain with certainty the identity of the other party), and non-repudiation (ensuring that the parties to a transaction cannot subsequently deny their participation). The new draft Model Law on Electronic Signatures and the draft Guide to Enactment of the Model Law currently being finalized by UNCITRAL will provide an important international model for developing countries wishing to prepare legislation on electronic signatures.

IV. PROPOSALS FOR UNCTAD'S FUTURE WORK, TAKING INTO ACCOUNT THE OUTCOME OF THE EXPERT MEETING

47. The discussions and recommendations of the Expert Meeting re-enforced the mandate provided in the UNCTAD X Plan of Action, as well as recommendations that have been made in a series of UNCTAD seminars and regional round tables on electronic commerce and development. They provide the content of UNCTAD's future work in the area of electronic commerce, as described below.

48. The UNCTAD secretariat needs to continue to study the implications for developing countries of the economic, social and legal aspects of electronic commerce from a development perspective, as mandated by UNCTAD X. Following the success of the UNCTAD publication entitled *Building Confidence*, the secretariat will publish the results of its analytical work in an annual publication that will cover general issues of policy in the field of e-commerce, as well as more technical matters, so as to provide a useful source of information on formulating strategies and policies on e-commerce. Additionally, the publication will be distributed and used in UNCTAD technical activities in the field, in order to contribute to raising awareness and building capacity in developing countries regarding the new information technologies. Considering the volume of additional work that this activity will require, the Commission might consider recommending that the required human and financial resources be made available to the secretariat within the regular budget.

49. It is essential for the UNCTAD secretariat to continue to monitor the trends in the tourism industry, in particular giving priority attention and support to the development of e-tourism that is economically, socially, and culturally sustainable in developing countries. This analytical work – to be undertaken in close collaboration with the World Tourism Organization, tourism research centres and academic institutions – will be aimed at the formulation of recommendations for maximizing the developmental benefits of e-commerce and will be reflected in the next issue of the yearly publication. It will be illustrated and complemented as necessary by case studies and analysis of technical issues such as on-line payments and new technologies such as interactive television and cellphones that can support e-commerce. On-line payments, in particular, are an area in which the Expert Meeting stressed that urgent action is required. To respond to these concerns, it might be desirable to organize an expert meeting on electronic commerce and financial services in order to study the issue further and propose strategic action.

50. As previously agreed by the Expert Meeting on Capacity-Building in the Area of Electronic Commerce: Legal and Regulatory Dimensions (14-16 July 1999) and endorsed with an amendment by the Commission at its fourth session (19-23 July 1999) (see TD/B/COM.3/28 and TD/B/COM.3/29), UNCTAD will continue to keep under review and monitor developments pertaining to legal and regulatory aspects of electronic commerce, keeping countries informed thereof, particularly on the following questions: jurisdiction, applicable law, dispute resolution mechanisms, taxation, intellectual property, domain names, privacy and data protection, consumer protection, computer crime, Internet content regulation, authentication, legal rules on certification authorities and their impact on cross-border recognition of certificates, and the role of accreditation and standardization bodies. In doing so, close cooperation will be maintained with the relevant international organizations, such as UNCITRAL, the Economic Commission for Europe, the World Intellectual Property Organization, the World Trade Organization, and the Organization for Economic Cooperation and Development. In order to keep developing countries abreast of developments in this area, the secretariat will include a chapter on legal and regulatory developments on e-commerce in the annual publication on Electronic Commerce and Development.

51. UNCTAD should support DMOs from developing countries and countries in transition in developing an e-commerce strategy. In particular, the UNCTAD secretariat could, in collaboration with research institutions and with the World Tourism Organization, prepare ad hoc training

material for DMOs, to support their informatization and to increase their capacity to act as destination management organizations. The course could then be disseminated through the TRAINFORTRADE Programme. The secretariat could also assist in the promotion of partnerships between DMOs in developing countries on the one hand and intermediaries and origin country DMOs on the other hand and in general promote the exchange of experiences among DMOS in different countries and regions.

52. The UNCTAD secretariat could find ways and means through appropriate UN programmes to act as an incubator for small and medium-sized enterprises in the area of e-commerce and e-tourism. Through the same programme, the secretariat could also examine ways to promote the visibility of tourism portals in developing countries and possible arrangements for the establishment of a global, central tourism portal for the benefit of developing countries.

53. In cooperation with other relevant international organizations and within existing human and financial resources, UNCTAD will seek to assist developing countries, upon request, in understanding the implications of various legislative approaches to accommodating electronic commerce.

54. To enhance the knowledge and awareness of government officials, trade practitioners, lawyers and entrepreneurs in developing countries regarding the legal aspects of electronic commerce, a TRAINFORTADE course on "Legal Aspects of E-commerce" is currently under development and will be available early next year. The course is being developed in close cooperation with UNCITRAL. It will include a detailed description of the legal issues involved in e-commerce, the problems raised in an electronic environment and possible solutions. Issues to be covered by the course are the following: contract creation, enforcement and validity; regulatory requirements (business compliance and marketing/advertising); security, jurisdiction issues; payment; taxation; consumer protection, data protection and dispute resolution.